1990 Annual Report

AT&T

Annie Phillips

"We're here to help."

Ming-Ching Tsu

"It's exciting working on the frontier."

Sonia M. Perez

"It's up to me to show that AT&T is quality."

William C Leach

"We can do what no one else can."

Carolyn Ring

"We do it better than anybody."

Kurt McCleary

"I create one system out of many parts."

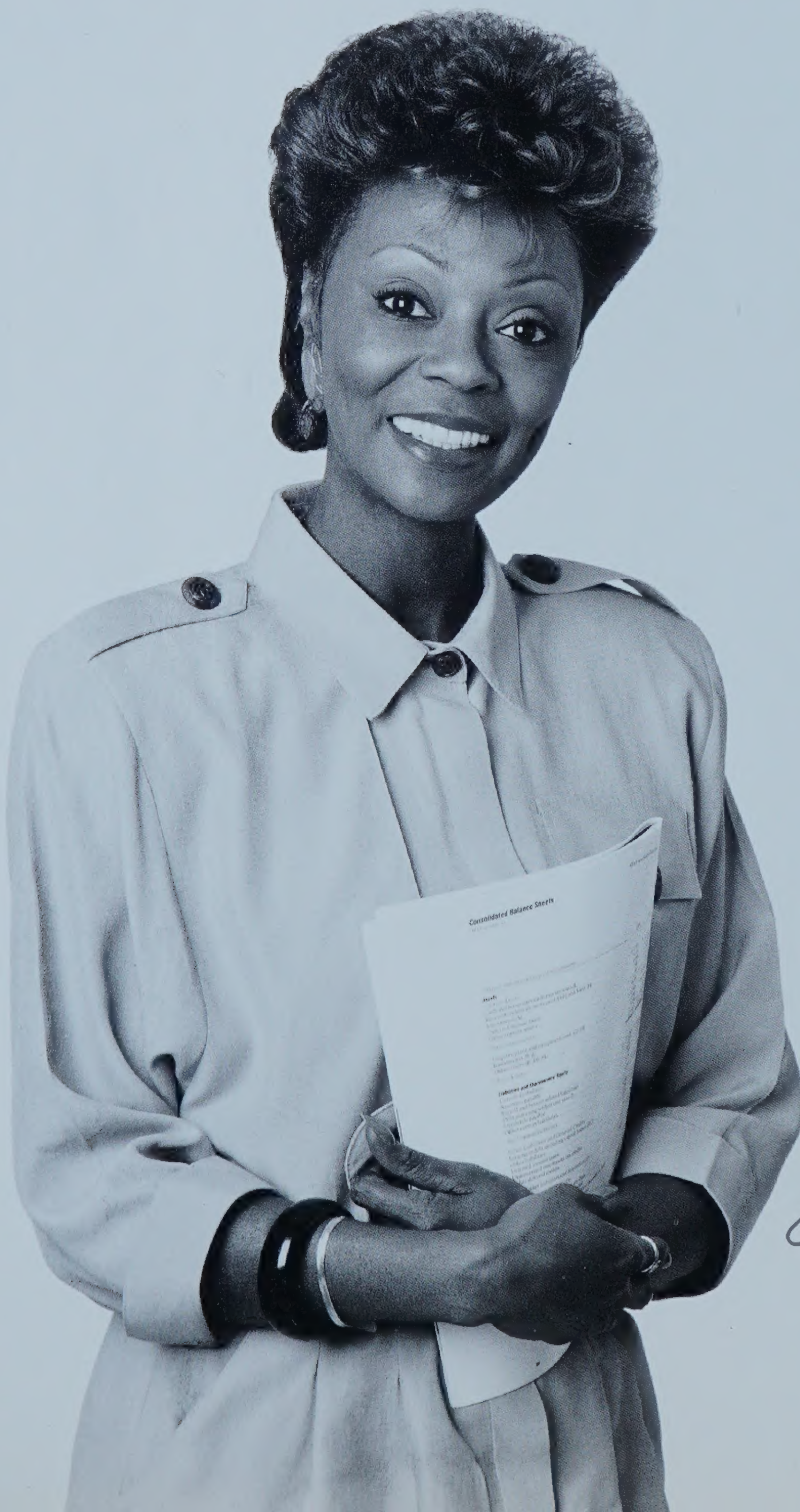
Francisco Pérez-Aranda

"My challenge is to meet installation deadlines."

A. Jill Regal

"Much of my job is educating customers."

Investor Information
How may we help you?



Helping AT&T Security Owners

AT&T American Transtech provides security owner services for AT&T and other clients, as well as administrative support for employee benefit plans and mutual funds. In 1990 American Transtech added 4,000 employees, built a national sales force and focused on growth in direct marketing services, especially telemarketing. In everything, it aims for superb customer service.

American Transtech representative Annie Phillips helps AT&T security owners with securities transfers, dividend or interest payments, changes of address, account consolidations and the dividend reinvestment plan.

"We manage more than 2.5 million accounts for people who own AT&T stocks or bonds. Most have fewer than 100 shares. We get all kinds of questions, from complicated transfers to: 'My dog ate my dividend check. What do I do?' We're here to help. We want to make owning AT&T securities as simple and convenient as possible."

For security owner information, call us toll-free at: 1-800-348-8288
(For additional investor information, please see the inside back cover.)

Annie Phillips

1990 Highlights
Revenues set a record

Dollars in millions (except per share amounts)	1990	1989	Percent Change
Sources of revenue:			
Telecommunications Services	$19,691	$19,526	0.8%
Communications, Computer and Other Products and Systems Sales	4,898	4,743	3.3
Telecommunications Network Products and Systems Sales	7,303	6,782	7.7
Rentals and Other Services	4,631	4,716	(1.8)
Financial Services and Leasing	762	382	99.5
The year's results:			
Total Revenues	$37,285	$36,149	3.1%
Operating Income	4,825	4,301	12.2
Net Income	2,735	2,697	1.4
Earnings Per Share	2.51	2.50	0.4
Dividends Declared Per Share	1.32	1.20	10.0
Total Assets at Year End	43,775	37,687	16.2

AT&T's Business

Our primary business is moving and managing information–providing quality products, systems and services in U.S. and international markets. Our Worldwide Intelligent Network carries voice, data, image and facsimile messages around the world. AT&T telecommunications and computer products, which can be networked into integrated systems, provide global access to information. In addition, we are in the general-purpose credit card business and provide value-added financial and leasing services for AT&T and other products.

Our mission is to apply the talents, knowledge and skills of our people to assure the company's place as the global leader in enabling customers to reap the benefits of information technology.

A Letter from the Chairman

Dear Shareowners: My job as chairman is to do all I can to enhance and protect the value of your investment in the near-term and, at the same time, to position the company for the future.

I had my hands full in 1990.

Weaknesses in the economy slowed our earnings growth, although we managed to show a small improvement over the previous year, in part reflecting a healthy growth in our international sales. Revenues of $37.3 billion, up 3.1 percent from 1989, set a record. Profits of $2.735 billion, or $2.51 per share, also reached a new level.

The board of directors, demonstrating its faith in the company's future, raised the dividend by 10 percent.

Positioning for the Future. It was time in 1990 to begin making critical decisions to get us ready for that future. One such decision, approved by the board, was to seek a merger with NCR, a well-managed computer company with a strong international presence and a leadership position in providing computer systems to the banking and retail industries. My intention is to ensure that AT&T can meet the rapidly emerging needs of our customers for networked computing–particularly in transaction-intensive industries, where computing and communications are highly interrelated. We plan to merge our own computer business–which has the right strategy but not the required scale–with NCR, retaining NCR's management, name and headquarters in Dayton, Ohio. Together, we can become a world leader in networked computing, the fastest growing part of the computer industry.

When efforts to arrive at a negotiated agreement failed, we made a cash tender offer for all the outstanding shares of NCR at a price of $90 per share, for a total value of $6.1 billion. NCR's board rejected our offer. As this report goes to press, our effort to complete this business combination is continuing.

Another key move was our decision to capitalize on our experience with telephone calling cards and enter the credit card business. So great has been consumer demand for the AT&T Universal Card, with its initial no-fee lifetime charter membership and 10 percent discount on AT&T long distance calling card rates, that by year's end it was the sixth ranked bank credit card in the United States.

Times of Challenge. As we continue to introduce new technologies, streamline our operations and improve our cost structure, we are challenged to do everything we can to cushion the effect of these changes on our people who are affected by them.

And, as improved technology allows us to carry more long distance traffic on fewer cables, we are challenged to enhance even further our network's reliability and reduce the risk of disruptions in service to our customers.

Some challenges are posed in the governmental arena. The Bell companies, despite prohibitions in the divestiture consent decree, are seeking legislation allowing them to re-enter the manufacturing and long distance businesses. We will continue to oppose such changes in the decree as long as monopoly control of the local exchanges jeopardizes competition in these other markets.

But the biggest challenge of all is to live up to our potential in the 1990's.

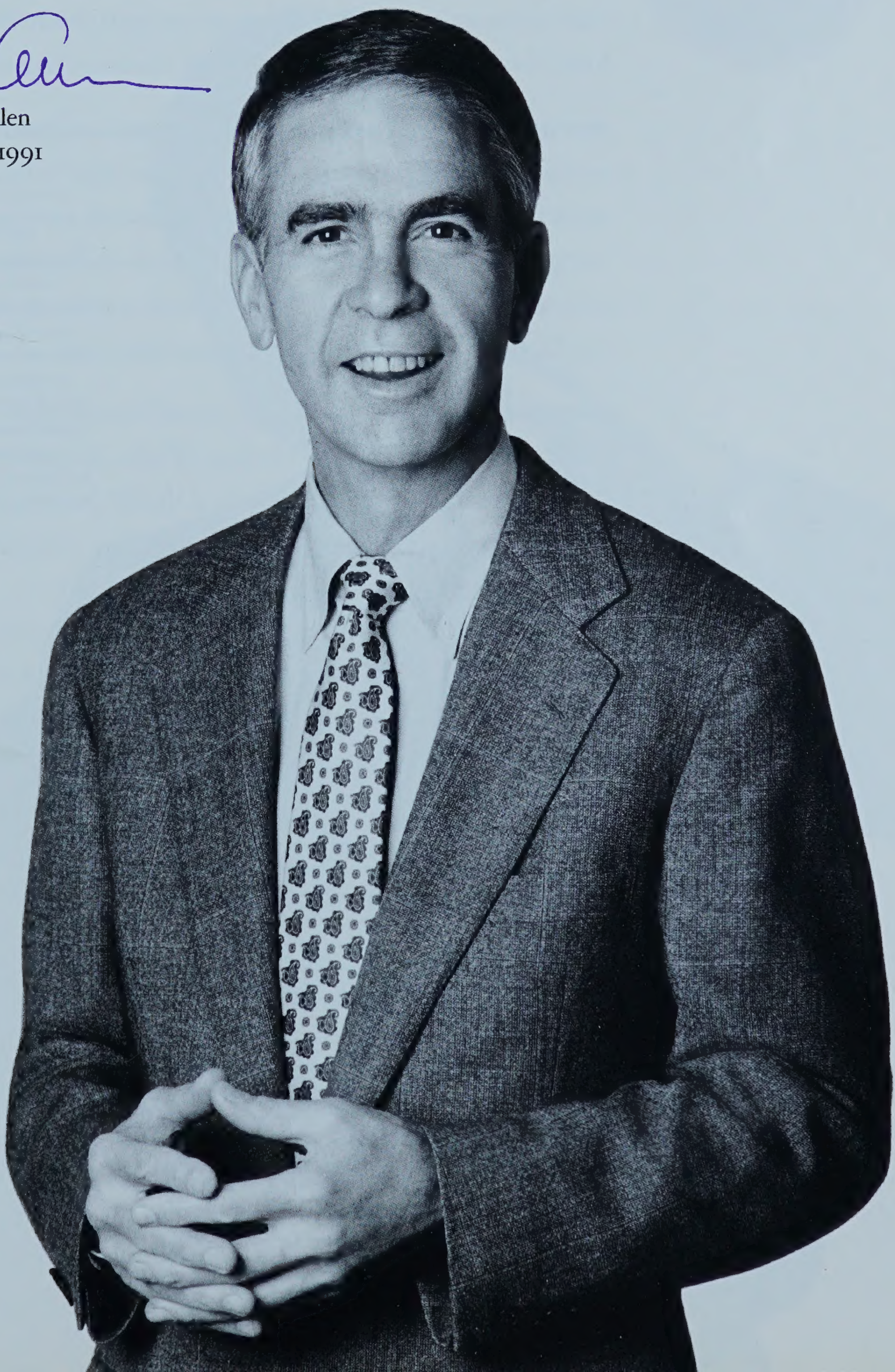
Economic, political and technological forces at work in today's world–ranging from the lowering of trade barriers to the increased investments being made in modern communications infrastructures in Eastern Europe and elsewhere–are shaping a future of partic-

ular opportunity for AT&T and its people. From worldwide banking and investment to worldwide manufacturing and marketing, from international diplomacy to international environmental monitoring, today's global society runs on information: stored, processed and, most important, networked. We are not alone in seeing this potential; we will be battling the best competitors in the world. But no company is better positioned or qualified – by its experience, its technology and its people – to take advantage of the business opportunities created by these changes.

Recent world events have made quite clear that the Information Society is no promise; it is here. We live in a world community made possible by real-time communication. AT&T's contribution to building this global society can be as compelling and significant as the achievement of universal telephone service was for America's growth and prosperity in decades past. We will push the frontiers of technology and knowledge to give people around the world easy access to each other and to the information and services they want or need, no matter where they are. In this way, we hope to use our talents and know-how in the decade ahead to advance human progress, productivity and understanding.

Bob Allen

Robert E. Allen
February 7, 1991

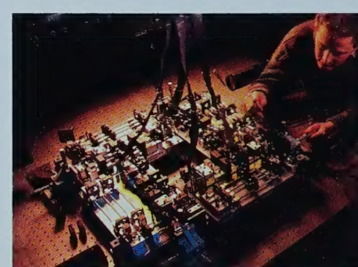


Research and Development
Worldwide technological leadership

AT&T research and development – a $2.4 billion investment in 1990 – gives us a powerful competitive advantage. The renown of AT&T Bell Laboratories is our admission ticket to many world markets. We work hard to maintain our R&D leadership, bringing new products, services and exciting capabilities to countless AT&T customers.

Bell Labs people carry out near-term development work for specific markets as well as long-term work that creates technology for the future. Scientists and engineers generated 400 patents in 1990, while Bell Labs Senior Vice President John Mayo was awarded the National Medal of Technology by President George Bush.

How does Bell Labs work translate to business solutions? Bell Labs engineers developed hundreds of new products and services for AT&T's long distance, computer and equipment units. These included improved network services for telephone companies, computer software that meets the sophisticated needs of today's global businesses, and microchip technology that gives personal computers the ability to recognize speech, produce music and graphics, and send messages.



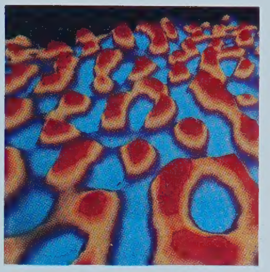
What about long-term work? Our researchers are trailblazers in photonics, the technology of light. In 1990 we demonstrated the world's first optical digital processor, which manipulates data with light rather than electricity. Someday such a device may perform a thousand times faster than today's electronic processors. We also pioneered the use of all-optical amplifiers in fiber-optic cables, which will improve transmission across the oceans. And we demonstrated an all-optical telephone switching device that could be in service as early as 1995.

Researchers also continue to push the limits of voice-recognition and image-processing technologies. We developed a personal-computer-sized speech recognition system with a 1,000-word vocabulary, which eventually could enable customers to communicate by voice with almost any machine – a computer, a microwave oven, a VCR. And researchers demonstrated neural network technology that can read a

series of handwritten digits, such as zip codes, using computer chips modeled on how the human brain functions.

We also showed it is possible to greatly compress the information required to broadcast a high-definition television (HDTV) signal. This advance makes AT&T and Zenith, our joint venture partner, leaders in the global race to develop the next generation of television technology.

Finally, our researchers confirmed the existence of a new form of matter, called quasi-crystals, which may be useful in high-quality electrical resistors.



Probing the Frontier of Optical Systems

Bell Labs scientist Ming C. Wu and his colleague Young-Kai Chen designed a semiconductor laser that generated a record-setting 350 billion light pulses a second, each one shorter than a trillionth of a second. That's more than 100 times faster than current lightwave systems that send communications signals over hair-thin glass fibers. Shorter, faster light pulses that travel farther increase the capacity of telecommunications systems. Ming Wu:

"We have gone far beyond conventional methods, using a light source to probe the unknown. The speed we achieved is two orders of magnitude greater than current systems. In seeking to send more information in the same period, we've identified problems in ultra-high-speed transmission. It's exciting working on the frontier of optical systems research."

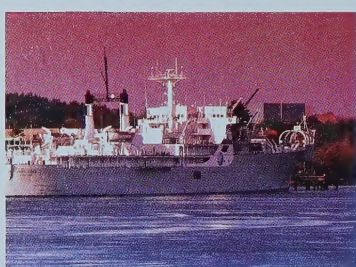
Ming Wu

Telecommunications Services
Strong at the core

Long distance services for consumers and businesses in the United States and abroad generate more than half of our sales revenues. Despite a weak economy, AT&T calling volumes in 1990 grew at a solid 7.5 percent. As expected, our revenues grew at a slower rate than calling volumes because customers are choosing new, lower-priced services made possible by cost reductions from our network modernization program and other savings.

Since 1984, we've lowered our long distance rates by more than 40 percent overall and introduced calling plans to meet consumers' individual needs. Aggressive advertising shows callers that AT&T's competitive prices, plus our quality, reliability, innovation and service, add up to the best value in long distance.

How fast is international calling growing? Demand for telecommunications services is booming all over the world. The long distance industry expects U.S. international call billings to reach $14 billion by 1995. To carry the surge in voice, image and data messages, we're placing new fiber-optic cables under the oceans. Our International Communications Services unit completed new cable routes in the Pacific and the Caribbean, began a new cable across the Atlantic, and announced new routes to Australia, New Zealand and the People's Republic of China. We also announced plans to have in service by 1996 a transoceanic, optically amplified cable that will carry 600,000 calls simultaneously.



Our services are helping to shrink the globe. We will expand our Global Software Defined Network service to 15 countries within two years, providing a range of cost-effective network options for multinational businesses. Hungary became the 50th country, and the first in Eastern Europe, where we offer International 800 Service, allowing callers there free access to U.S. businesses. We also extended USA Direct® Service, which now is available from more than 80 countries, making it easier for traveling Americans to reach an AT&T operator when calling back home. U.S. military personnel in Saudi Arabia are among those using this service.

At the end of 1990 we added to our global messaging capability with the purchase for $180 million of Western Union's business services group. That unit joined existing AT&T operations to become AT&T EasyLink Services. Our goal: to become the worldwide leader in providing integrated, high-quality, multimedia messaging services, products and related value-added network offerings, such as electronic mail and high-speed facsimile transmission. We're applying new technology to the way businesses store, translate, send and receive information. In addition, AT&T ISTEL in the United Kingdom and AT&T Jens, a joint venture in Japan, are expanding our electronic messaging and information services in those key markets.

onia M. Perez

Offering a Personal Touch

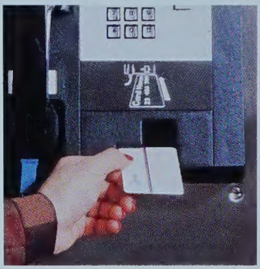
"AT&T. Mrs. Perez. How may we help you?"

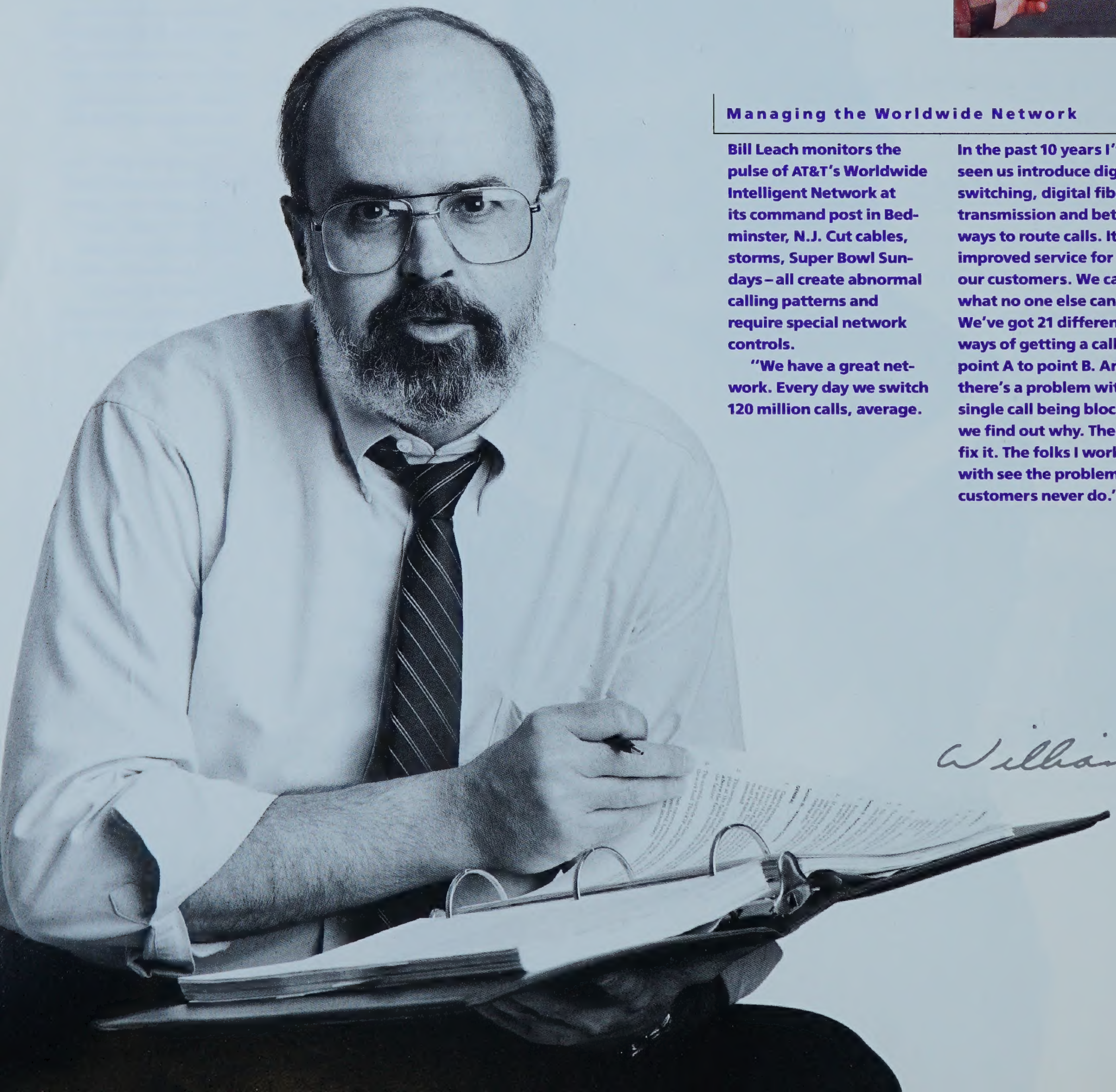
Since 1965, Sonia Perez, an AT&T operator, has helped customers make long distance calls. All hours, every day, our highly trained operators provide friendly, personalized service. Whether it's placing collect or person-to-person calls or arranging for credit on misdialed calls, AT&T operators have one goal: customer satisfaction. The technology may change, but not the approach.

"I enjoy my job. I'm a professional, and I know my job well. I do my best to meet my customers' needs quickly, but also with a personal touch. It's up to me to show that AT&T is quality. And when I say, 'Thank you for using AT&T,' I mean it."

What is AT&T doing for residential customers? We offer consumers the best service and value, with calling plans tailored to their individual needs. Consumer Communications Services offers Reach Out® America calling plans, for example, that provide monthly savings for 30 or 60 minutes of direct-dialed calling between states. A similar plan – Reach Out® World – is available for calling to 45 countries. SelectSaver℠ Service offers lower prices for direct-dialed calls to a selected area code. We also introduced AT&T Language Line℠ Service to help domestic and international callers overcome language problems by providing easy phone access to interpreters who know more than 140 languages.

We've aggressively pursued contracts to provide long distance service for the traveling public. AT&T serves seven out of 10 public phones, 20 of the country's 25 largest airports and 17 of the top 20 lodging chains. And we continue





Managing the Worldwide Network

Bill Leach monitors the pulse of AT&T's Worldwide Intelligent Network at its command post in Bedminster, N.J. Cut cables, storms, Super Bowl Sundays – all create abnormal calling patterns and require special network controls.

"We have a great network. Every day we switch 120 million calls, average. In the past 10 years I've seen us introduce digital switching, digital fiber transmission and better ways to route calls. It's all improved service for our customers. We can do what no one else can. We've got 21 different ways of getting a call from point A to point B. And if there's a problem with one single call being blocked, we find out why. Then we fix it. The folks I work with see the problems, so customers never do."

William C

to explain how customers can dial 10-ATT-0 to reach the AT&T network from phones served by competitors.

The long distance business has become increasingly competitive. And so have we. Our "Put It in Writing" advertising campaign helped consumers cope with the flood of phone solicitations and make more-informed decisions about long distance service. We've also proposed safeguards to the Federal Communications Commission to protect consumers from having their long distance service switched without their consent.

What about winning and keeping business customers? Our Business Communications Services unit is gaining new momentum by offering business long distance customers greater value for their dollar. Large businesses want their voice and data services, network management capability and billing arrangements provided on an individual, customized basis. We're doing that, aided by specialized sales and support people. Special promotions have been an effective sales tool, winning back 25,000 customers to our PRO® WATS service. We improved the industry's first and only 800 Assurance Policy by committing to restore or reroute within 30 minutes any 800 service disruption – half the time of our previous offer. Dedicating AT&T technicians to specific services is also helping us correct problems more quickly.

Last year we introduced new services that boost a company's ability to send large volumes of data faster, more economically and with fewer errors. With our Software Defined Data Network service, customers can dial up extra capacity for video teleconferences and other services when they need it.

We've reduced some prices and increased others, setting them to be competitive and to reflect the value we bring to customers. That value is unsurpassed, say readers of the trade magazine *Data Communications.* They rated AT&T number one in 1990 for the quality of our data lines, low error rate and speed in setting up calls. Best of all, AT&T came out on top in overall satisfaction.

Leach

Telecommunications Products
Leading the way

We hold the lead in the hotly contested competition for home and business phones and for data communications devices. And, despite an increasingly sluggish economy and stiff competition in 1990, our overall equipment sales revenues edged up.

How is AT&T winning in the business equipment market? AT&T Business Communications Systems is the leading vendor of voice communications systems for large businesses. Two years after its debut, the digital Definity® Communications System gets high marks from firms that need customized applications from a PBX that can expand along with their business. (PBXs are sophisticated electronic call processing systems.) And, with Integrated Services Digital Network (ISDN) Gateway software, the Definity Systems can be linked to a computer to speed call handling and make more information instantly available to agents handling telemarketing, reservations and customer service.

International sales are growing as we develop distributors in Europe, the Pacific Rim and the Americas and sell directly in the United Kingdom, Canada and Puerto Rico. The partnership between AT&T and ITALTEL, which makes Definity PBXs for the Italian marketplace, is helping us enter European markets. We have a similar agreement with Honeywell to offer our systems in Australia.

The unique needs of smaller businesses, from start-ups to firms with 80 phone lines, are served by General Business Systems. Our telephone systems and facsimile products offer even the smallest firms the features and flexibility usually available only to larger customers. In 1990 we introduced a family of voice messaging products for small and medium-sized firms. And our affordable new Partner™ Communications System is the first in the industry to allow multi-line phones to share an extension with such other communications equipment as facsimile or answering machines. We market GBS products in more than 10 countries through local distributors and we are pursuing new markets in major European countries.

AT&T Paradyne continues to meet worldwide data communications needs. We introduced programmable data networking products that are compatible with existing products and adaptable to future technologies, as well as a network management system that provides a single point of control. AT&T Paradyne has the industry's largest data communications customer support force and a strong international presence with direct sales or distributors in almost 50 countries.

What is AT&T's strategy in the computer market? AT&T Computer Systems has concentrated its people on a critical customer need: networked computing. Our products and services provide solutions ranging from office automation to complex airline and hotel reservation centers. Contracts won last year from American Airlines' worldwide SABRE

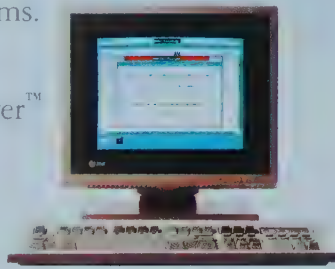
Leading the Voice Processing Market

The voice mail and voice response markets are growing smartly, making businesses and institutions more efficient and easier to reach. By 1993, U.S. industry sales for voice processing equipment should reach $2.2 billion. Carolyn Ring, AT&T product manager:

"Our Conversant® Voice Information System and AUDIX voice messaging systems are both leaders in their markets. AT&T's strength lies in the reliability of our products and in our ability to use digital technology to tie systems together. We do it better than anybody. Soon, speech recognition technology will allow us to talk directly to a computer, without pressing phone buttons to prompt a response. It's phenomenal."

Travel Information Network, United Parcel Service, Amtrak and Hyatt Hotels show that our strategy is on target.

We're seeking to strengthen our position in this market by merging with NCR, which has a global reach and shares our vision of networked computing and open (as contrasted with proprietary) computer systems.



Last year we brought out the award-winning Rhapsody™ software, our high-performance StarServer™ computers and innovative network management hardware and software.

Assuring Reliable Networked Computing

Networked computing links computers in an easy-to-use way, so people can share computing power, files and information within an office, or around the world. AT&T's open standards make our systems compatible with others. That's important to customers. AT&T Customer Engineer Kurt McCleary keeps the systems of one company humming.

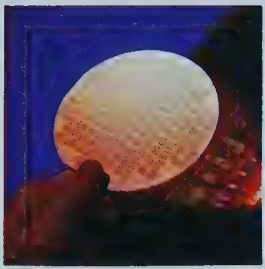
"Our computers are very compatible with my customer's other systems. My job is to keep everything working together. To create one system out of many parts. There aren't many problems with our equipment because it's very reliable, but I've got to keep it running smoothly with machines from other vendors. Customers depend on their computers. They can't afford a problem."

Kurt McCleary

Our UNIX System Laboratories, Inc., subsidiary provides computer vendors with the UNIX® operating system and software based on open, international standards for computing and communications. To accelerate the move to open systems worldwide, we're offering certain vendors an equity interest in this unit.

How is AT&T attracting residential customers? By focusing on customer needs, high quality and a steady stream of innovative phones and answering systems, our Consumer Products business continues to lead the industry and outpace its growth. We launched some 50 products in 1990. Among them: several answering systems, including an all-digital version, a two-line model, and the first model to allow users to retrieve messages with rotary-dial phones and voice commands; a two-line cordless phone; and a unit that displays the phone number of the person calling. A new Mickey Mouse telephone, introduced with The Walt Disney Company, is a big hit. For customers who lease, we offered a wider choice of products and enhanced our leasing services.

A new factory in Bangkok, Thailand, began producing corded phones in March and before year-end had shipped one million sets. Our superior products and service were recognized by many of our retail partners, including Sears, which honored us as their "Marketer of the Year."

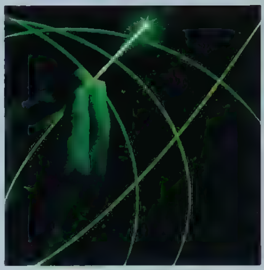


In what other specialized equipment markets does AT&T compete? AT&T Microelectronics designs, manufactures and markets advanced semiconductor and photonic devices. Federal Systems Advanced Technologies designs and produces special products for the federal government.

Strategic partnerships with Japanese companies Mitsubishi Electric and NEC have extended Microelectronics' marketing reach and given it access to new custom chip design and manufacturing technology. By offering customers a wider selection of both custom devices and high-volume standard products, we expect to enhance AT&T's profitability.

Federal Systems Advanced Technologies rang up sales of 10,500 secure telephone units, used by government agencies for communicating classified information, generating $35 million in revenue. This unit also received U.S. Navy contracts for $337 million over five years for an undersea sensor system and $67 million for signal processors.

Pursuing global growth



AT&T Network Systems is among the world's largest suppliers of telecommunications network equipment. Long the U.S. market leader, Network Systems also is growing stronger abroad, where our sales increased more than 40 percent in 1990. AT&T Network Systems manufactures and markets call-switching and transmission equipment, fiber-optic and copper cable, operations support systems, and cellular systems for mobile phone networks – equipment that is much in demand as countries invest in modernization.

How is AT&T growing internationally? We're expanding our sales efforts and manufacturing around the world. In Europe, primarily through AT&T Network Systems International, we made particularly strong progress. In 1991, a new factory in Tres Cantos, Spain, will begin producing the 5ESS® digital switch – our most advanced call-switching machine for telephone company central offices. Our factories in the Netherlands, Taiwan, Korea and the United States delivered more than one million lines of 5ESS switching equipment to Europe and Asia in 1990. Significant international sales included contracts worth more than $1 billion for 5ESS machines in the Netherlands, Indonesia, Taiwan, Singapore, Egypt, Poland, Armenia, Aruba and Spain; $70 million for cellular equipment in Korea and the Philippines; and $130 million from Teléfonos de México for fiber-optic cable, transmission equipment and local services.

What is ahead for the U.S. market? Sales to independent telephone companies and private network operators were up significantly in 1990, and we expect continued growth. We regained our position as the number one supplier of cellular systems for U.S. mobile phone networks, boosted by such competitive wins as a $200 million contract with Southwestern Bell Mobile Systems and a $600 million contract with GTE Mobilnet.

AT&T Bell Labs technology, development and engineering resources, plus our unmatched customer service and support, helped us win major contracts with Bell and independent companies. We remained the market leader by helping these companies bring new services to their customers. In 1990, we shipped more than 5 million lines of digital central office switching equipment. And our new family of powerful optical transmission systems, which improve network reliability, has won rapid acceptance in the market.

We see great promise in new applications of technology. By 1995, we expect to sell network equipment that switches communications signals as pulses of light, rather than electricity. Someday, networks based totally on this technology, called photonics, will have dramatically greater call-handling capacity, operating at speeds measured in trillions, rather than millions, of bits per second.

A major change in the architecture of AT&T Network Systems products will make it easier for telephone companies to offer such services as computer networking and broadcast-quality video through the switched network.

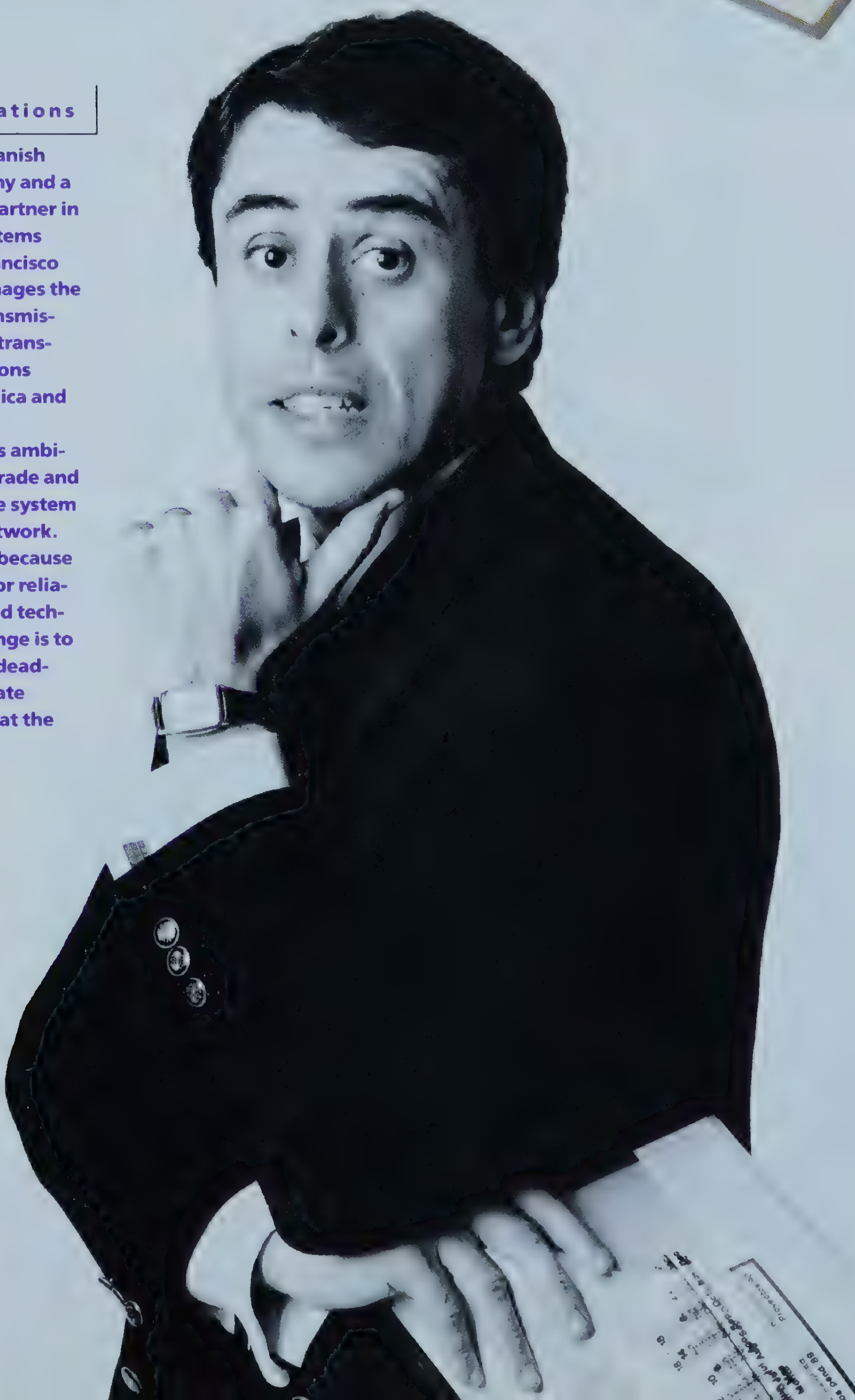
We'll introduce an intelligent phone in 1992. The AT&T "smart phone" looks and acts like a phone, but works like a personal computer. It makes advanced phone services easier to use and can bring transaction and information services into the home.

Modernizing Spain's Telecommunications

Spain is preparing for the approaching common European market and for the crush of visitors expected at the 1992 Olympic Games and Expo '92 World's Fair. AT&T Network Systems España, a joint venture of AT&T Network Systems International and Amper, will be there to help provide an advanced telecommunications network. In only three years, the Spanish company has become a strategic supplier to Telefónica (the Spanish telephone company and a 6 percent equity partner in AT&T Network Systems International). Francisco Pérez-Aranda manages the installation of transmission systems that transport communications signals for Telefónica and other customers.

"Telefónica has ambitious plans to upgrade and grow its telephone system and digitize its network. They look to AT&T because of its reputation for reliability and advanced technology. My challenge is to meet installation deadlines and to estimate future needs so that the capacity is there."

Francisco Pérez-Aranda



Financial Services
Complementing the core

We're also in the financial services arena wherever there's a match between our customers' needs and our expertise.

In 1990, AT&T Capital Corporation became a family of businesses providing full-service leasing and financing. An industry leader, it has more than $5 billion in assets, offices in 30 major cities across the country and almost 400,000 accounts. Though its primary business is providing financing for AT&T products and systems, it also arranges financing for office equipment, mainframe computers, automobiles, aircraft and manufacturing equipment. We expect continued growth, especially in international and specialized leasing markets.

AT&T Universal Card Services represents a strategic move to strengthen our relationship with our 40-million-strong calling card base and to respond to a consumer demand for a combined credit and calling card. Consumers love the card's features: no annual fee for charter members who make at least one purchase a year, and a 10 percent discount on AT&T's already competitive calling card rates.

Adding Value with the AT&T Universal Card

It's been called the business success story of 1990. The AT&T Universal Card, a general-purpose credit and calling card, burst out of the gate and set industry growth records. By year's end, we had signed up more than 7 million card members. Jill Royal is a telephone associate, taking phone applications and answering questions.

"I've been here from day one and our success has been exciting ever since. Each voice is a new person, a new customer who needs help. Much of my job is educating customers. Sometimes they're uncertain how to use the AT&T Universal Card as a calling card. I explain how easy it is. It's not unusual for a caller to volunteer, 'I love the card. I'm glad AT&T did this.' Because of the card's connection with AT&T, they know they really have something of value."

A. Jill Royal

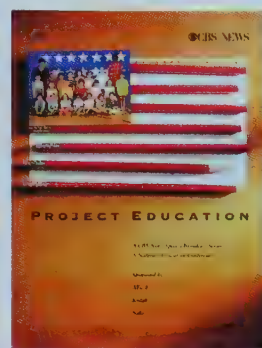
Corporate Citizenship
Investing in the future

It's both right and smart to invest in the arts, education, health and social action programs. And we invest a lot. Our cash and equipment contributions since divestiture in 1984 exceed $300 million.

Much of our giving addresses the many pressures on today's American family. The traditional family of "Leave It to Beaver" is now the exception, and single-parent families and teen parents, especially, need support. Our funding makes possible programs that help prevent teen pregnancy and that bring health care, counseling, day care and other services to teen parents.

Decisions to fund or not fund particular organizations can lead to public controversy. We continue to be guided by what we believe serves the interests of both AT&T and those helped directly by our contributions.

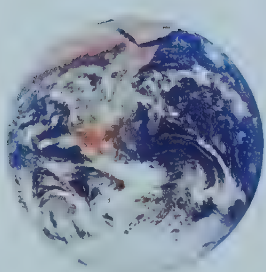
Education is another priority. We raised awareness by sponsoring the CBS television special, "America's Toughest Assignment: Solving the Education Crisis." Many AT&T grants fund local programs that encourage parents' involvement in their children's education, train volunteers, improve teacher effectiveness and keep children in school. Higher education grants support excellence in science and engineering – the source of American economic vitality that must be protected.



With a broad program in the arts, we make a special effort to nurture the creation, production and presentation of new work, especially by women and minority artists.

AT&T people generously give their time, energy and money to worthy causes. Much of our employee involvement is channeled through the Telephone Pioneers of America, the world's largest industry service organization.

We responded to the crisis in the Persian Gulf in a variety of ways, including using our technology and facilities to provide free facsimile service as a communications lifeline between families of American military personnel and their loved ones at war.



We also recognize our responsibility to the environment. We've set ambitious goals to reduce manufacturing waste by 25 percent and increase paper recycling by 35 percent by 1994. We're investing in new manufacturing technology, so that by 1994 we will no longer emit substances that harm the earth's vital ozone layer. Because of this effort, the Council on Economic Priorities presented us with the 1990 Corporate Conscience Award for Environmental Responsibility.

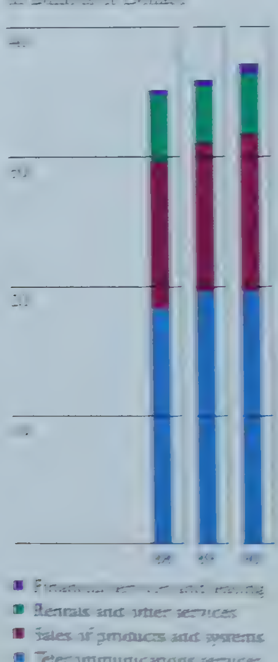
In 1990, we retained or enhanced our market position in core businesses, accelerated our penetration of international markets, and vigorously pursued opportunities in the financial services and leasing industry.

We closed 1990 with net income of $2.735 billion or $2.51 per share, compared with $2.697 billion or $2.50 per share in 1989. Total revenues increased to $37.285 billion from $36.149 billion in 1989. The growth in revenues and net income was achieved despite a deteriorating economy and intense competition.

Record revenues in 1990 resulted from higher volume of telecommunications services, increased sales of products and systems, particularly in international markets, and strong growth in financial services and leasing. Operating income increased 12.2 percent compared with 1989, reflecting the higher revenues as well as further streamlining of our operations that led to improved control over costs and expenses. Partially offsetting these improvements were the start-up costs and expenses for the AT&T Universal Card operations begun in March 1990. The percentage increase in net income was substantially lower than the percentage increase in operating income because of a higher effective tax rate (primarily resulting from reduced tax credits), lower other income – net and higher interest expense. An increase in average shares outstanding further tempered the increase in earnings per share.

To further enhance our international presence and expand our capabilities to serve customers in networked computing applications, we are pursuing a business combination with NCR Corporation (NCR). We offered $6.1 billion, or $90 per share, to NCR shareowners and had received valid tenders for approximately 70 percent of common shares by January 15, 1991.

Total Revenues
in Billions of Dollars



NCR is a major information movement and management company that will complement AT&T's strengths and enable us together to meet the global networked computing needs of our customers more effectively.

Results of Operations and Financial Condition

At year-end, we revised our income statement to help investors better understand our results. The changes are described in a separate box on the facing page and also in Note (B).

The detailed discussion and analysis that follow explain trends in AT&T's results of operations and financial condition. Where possible, we have identified factors that may affect future results.

Total Revenues

AT&T is a major competitor in two industries. In the global information movement and management industry, we provide long distance telecommunications services, as well as systems, products and services that combine communications and computers. In the financial services and leasing industry, we provide direct financing and finance leasing programs for our own products and the products of other companies, lease non-AT&T products to customers under operating leases, and are in the general-purpose credit and calling card business.

Total revenues rose 3.1 percent in 1990 following a 2.6 percent increase in 1989. Telecommunications services revenues, net of access and other interconnection charges, continue to increase primarily as a result of higher volume. This source of revenues has increased each year since divestiture in 1984. Our penetration of new U.S. and international markets, particularly over the last two years, led to higher sales of products and systems. Our investment in the financial services and leasing industry since the formation of our finance subsidiary in 1985 is now making a significant contribution to revenue growth. Revenues from rentals and other services continue to decline, although at a slower rate than in the past.

Because our markets are highly competitive and characterized by rapid changes in technology and business conditions, continuing revenue growth is never assured. To stimulate growth, we are constantly improving the quality and range of our products and services. We will continue to expand our customer base globally and to take advantage of our growing strength in financial services and leasing. These efforts will be supplemented by investments and acquisitions when attractive opportunities develop. Absent a severe recession or fundamental change in our core markets, management expects these actions will lead to continued revenue growth in 1991.

Our new income statement format

This year, we changed our presentation of revenues and costs to make it easier for investors to understand our results. We separated telecommunications services from financial services and leasing to permit the impacts of trends and our changing presence in these markets to be more easily discerned. Rentals of AT&T communications and computer products under operating leases are now combined with other services (mostly product-related installation and maintenance services) because these rentals and product-related services share support staffs and facilities.

Telecommunications Services

Revenues from telecommunications services, net of access and other interconnection charges, increased 0.8 percent in 1990 after an increase of 5.4 percent in 1989. Revenues from these services have increased each year since divestiture primarily because of strong volume growth. This volume growth reflected a growing economy, new services, price reductions and other factors. Measured by billed minutes of switched services, volume increased 7.5 percent in 1990 and 6 percent in 1989. The volume growth was led by international and inbound and outbound business services (for example, 800 and WATS) in both years, although residence services also increased modestly in 1990. Revenues increased less than volume primarily because of strong customer acceptance of the new lower-priced services made possible by our network modernization and other cost reduction programs.

We have reduced prices on basic interstate toll services more than 40 percent since divestiture on January 1, 1984. The largest individual price changes in 1990 were interstate reductions in January and July with annual effects of $300 million each. Other interstate and intrastate price changes, including increases, were made throughout the year. In 1989, interstate prices were reduced by $778 million. Most price reductions since divestiture came from lower access charges that were passed on to customers.

Competition in these markets is intense. Although we continue to be the market leader, we have lost significant market share in the years since divestiture and our competitors continue to grow rapidly. There are hundreds of companies competing in these markets and our largest competitors have network capacities that exceed current market demand. In recognition of the changed market conditions, the Federal Communications Commission (FCC) adopted a new form of regulation in 1989, replacing controls on our profits with upper and lower limits on our prices. This change gives us greater flexibility to respond to customers and offers us the same incentives as our competitors to increase profits by reducing costs and introducing new and enhanced services. The limits on prices change in response to productivity gains and inflation. We remain more constrained by regulation than our competitors and continue to seek more flexibility to respond to competition as well as a reduction in costly and time-consuming regulatory requirements. We are requesting that the FCC recognize the inequity of handicapping a single competitor and to rule that we are not dominant merely because of our larger size.

We are competing vigorously in this core business by introducing new and enhanced services and maintaining our reputation for quality and customer service. We assigned

Seven-Year Summary of Selected Financial Data*

(unaudited)

Dollars in millions (except per share amounts)	1990	1989	1988**	1987	1986**	1985	1984	Jan. 1, 1984
Results of Operations:								
Total revenues	$37,285	$36,149	$35,218	$33,773	$34,213	$34,496	$33,187	
Total costs and expenses	32,460	31,848	38,276	30,252	33,847	31,476	30,892	
Net income (loss)	2,735	2,697	(1,669)	2,044	139	1,557	1,370	
Dividends on preferred shares	0	0	1	23	86	110	112	
Income (loss) applicable to common shares	2,735	2,697	(1,670)	2,021	53	1,447	1,258	
Earnings (loss) per common share	2.51	2.50	(1.55)	1.88	0.05	1.37	1.25	
Dividends declared per common share	1.32	1.20	1.20	1.20	1.20	1.20	1.20	
Assets and Capital:								
Property, plant and equipment – net	$17,472	$15,919	$15,280	$20,808	$21,101	$22,262	$21,343	$20,569
Total assets	43,775	37,687	35,152	39,473	39,534	40,688	39,773	35,545
Long-term debt including capital leases	9,118	8,144	8,128	7,917	7,660	7,794	8,718	9,137
Preferred shares subject to mandatory redemption	0	0	0	62	912	1,457	1,494	1,523
Common shareowners' equity	14,093	12,738	11,465	14,455	13,550	14,633	13,763	12,508
Net capital expenditures	3,629	3,565	3,942	3,482	3,587	4,031	3,424	
Other Information:								
Operating income (loss) as a percent of revenues	12.9%	11.8%	(8.7)%	10.4%	1.1%	6.8%	6.9%	
Net income (loss) as a percent of revenues	7.3%	7.5%	(4.7)%	6.1%	0.4%	4.5%	4.1%	
Return on average common equity	19.7%	22.2%	(11.3)%	14.4%	0.3%	10.1%	9.5%	
Data at year-end except 1/84:								
Market price per share	$30.125	$45.50	$28.75	$27.00	$25.00	$25.00	$19.50	$17.875
Book value per common share	$12.90	$11.84	$10.68	$13.46	$12.64	$13.68	$13.26	$12.81
Total debt ratio	49.7%	45.3%	44.7%	38.0%	37.8%	36.9%	38.5%	45.3%
Debt ratio excluding financial services	41.2%	39.4%	41.0%	35.2%	35.8%	36.2%	38.5%	45.3%
Employees	273,700	283,500	304,700	303,000	316,900	337,600	365,200	373,000

*Certain amounts for prior years were restated to conform to current presentation.

**1988 data were significantly affected by a charge for accelerated digitization program costs. 1986 data were significantly affected by major charges for business restructuring, an accounting change and other charges.

additional employees to sales and customer support for telecommunications services in each of the last three years. Effective advertising has helped to correct customer misperceptions about our prices compared with our competitors' prices. Because of these and other actions and growth in the market as a whole, we anticipate continued growth in revenues from telecommunications services in 1991.

Sales of Products and Systems

Sales of products and systems increased 5.9 percent in 1990 and 1.7 percent in 1989. The increase in 1990 was led by higher sales of telecommunications network products and systems, microelectronics components, computer products and systems, and consumer communications products. The increase in 1989 was led by higher sales of consumer communications products, microelectronics components, special design products sold to the federal government, and computer products and systems. Sales growth came particularly from higher international sales both years. If the economic downturn is not more severe than management currently anticipates, we expect continued growth in sales of products and systems as we continue our penetration of international markets.

Revenues in millions	1990	1989	1988
Telecommunications network products and systems	$ 7,303	$ 6,782	$ 6,827
Communications and computer products and systems	3,689	3,575	3,409
Microelectronics products, special design products for U.S. government, and other	1,209	1,168	1,098
Sales of Products and Systems	$12,201	$11,525	$11,334

Revenues from telecommunications network products and systems increased in 1990 after decreasing in 1989. In both years, we broadened our customer base internationally and among independent telephone companies and private network operators in the U.S. Our export sales and sales from foreign-based operations increased more than 40 percent in 1990, to $1.5 billion, after a 30 percent increase in 1989. Reduced demand for these products and systems among Bell telephone companies partially offset the growth in international sales in 1990 and was primarily responsible for the decline in 1989 sales.

Sales of communications and computer products and systems continued to increase over the last two years, primarily as a result of higher sales of consumer communications products and computer products and systems. Sales of consumer communications products have been rising steadily for several years because of gains in market share and new product introductions. The increase was led by higher sales of telephone answering machines and cordless telephones in 1990. Sales of cordless telephones were particularly strong in 1989, although sales increases occurred across the product line. Revenues from computer products and systems increased over the last two years, aided by major contracts with U.S. government agencies and large-business customers. This market is characterized by rapid changes in technology. Our new products are being received favorably by customers and we continue to leverage our strengths in networked computing applications.

Revenues from sales of large-business communications products and systems declined in 1990 after remaining level in 1989. Revenues from sales of small-business communications products and systems declined both years. The markets for business communications equipment have not been growing and price competition is intense. Sales of data communications equipment declined in 1990, primarily because of weak industry demand, after increasing in 1989. In 1989, we acquired Paradyne Corporation (Paradyne), a maker of modems and other data communications products, and combined it with our existing data communications equipment operations.

Revenues from sales of microelectronics products to original equipment manufacturers increased in each of the past two years due to higher volumes. Sales of special design products to the federal government declined in 1990 after increasing in 1989.

Rentals and Other Services

Revenues in millions	1990	1989	1988
Communications and computer product and system rentals	$2,096	$2,425	$3,029
Installation, maintenance and other product-related services	1,522	1,675	1,491
Other rentals and services	1,013	616	622
Rentals and Other Services	$4,631	$4,716	$5,142

Communications and computer product and system rental revenues from both residential and business customers continued to decline over the last two years as expected, reflecting intense competition and aggressive pricing on outright sales. However, we continued to adjust prices and to introduce new and attractive leasing and maintenance options. These actions slowed the decline in revenues and offered customers protection against equipment obsolescence.

Revenues from installation, maintenance and other services for data systems, data communications and business communications equipment declined in 1990 after increasing in 1989. The decline reflected reduced industry demand and increased competition.

Other rentals and services revenues increased significantly in 1990 after remaining essentially level in 1989. The increase in 1990 reflected the addition of information technology services revenues from ISTEL Group Ltd. (ISTEL), acquired in the fourth quarter of 1989, and growth in miscellaneous and newer services managed by our telecommunications services business units.

Financial Services and Leasing

Revenues from financial services and leasing almost doubled in 1990 after increasing 76 percent in 1989. The growth was fueled by the continuing expansion of innovative equipment financing and leasing activities at AT&T Capital Corporation (AT&T Capital) and the launch of the AT&T Universal Card in March 1990. (AT&T Capital results and balances prior to 1990 are those of AT&T Credit Corporation, now a subsidiary of AT&T Capital.)

The AT&T Universal Card is a general-purpose credit and calling card that attracted 4.5 million accounts in its first nine months of operation. During 1990, customers purchased more than $4 billion of goods and services using the card.

AT&T Capital continued to expand over the past two years, aided by acquisitions that broadened its customer base and product financing expertise. Management anticipates continued expansion in this business by capturing market share and making additional acquisitions.

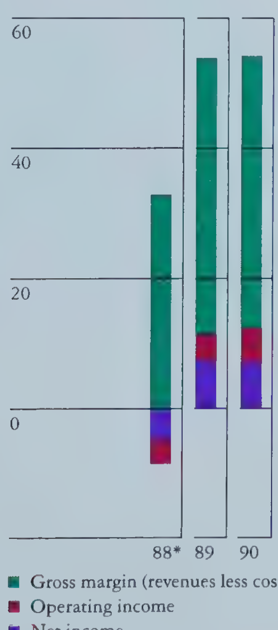
Costs and Expenses

During the past three years, costs and expenses have included certain charges and credits related to business restructuring activities and the rapid conversion of our long distance network to fully digital operation. (See also Notes (D) and (E).)

The charges and credits for our network conversion are displayed on a separate line of the income statement and are included in cost of telecommunications services. In 1988, we recorded a $6.7 billion charge because of the effects of our network conversion. That charge reduced 1988 earnings after taxes by $3.9 billion or $3.66 per share. In 1990, we recorded a $400 million net credit to accelerated digitization program costs. The credit reflected a reduction in 1988 reserves, made possible primarily by efficiencies in removing and disposing of obsolete equipment. These savings were partly offset by additional costs for force reductions and facility closings related to the network conversion.

We also recorded charges of approximately $495 million in 1990, and substantially smaller charges in 1989, for other business restructuring activities. These actions included restructuring operations for producing microelectronics components and systems and for reclaiming scrap metal, and resizing our product technician work force. Along with these efforts, in the last two years we amended our management and non-management pension plans to make more employees service-pension-eligible with improved pension benefits. We also offered special retirement options that further increased pension payments for employees who chose to retire. We continue to offer these special retirement options to non-management employees in selected groups that have surplus jobs. (See also Note (N).)

Profitability Ratios
in Percentages of
Total Revenues



*1988 results included a $6.7 billion charge related to the rapid conversion of the long distance network to fully digital operation.

Our business units all operate in markets that are intensely competitive. As a result, prices and technology are under continual pressure. These market conditions make the ongoing requirement for cost control even more important, as does the currently weak economy. The managers in our business units are continuously evaluating their resource needs and ways to reduce costs. These ongoing steps may include additional facility consolidations, disposals of assets, operational resizing, or exiting markets that do not contribute to our corporate strategy or profitability. These conditions are especially pronounced in the computer products and systems markets, as demonstrated by the proposed business combination with NCR discussed on page 24. If completed, the combination will likely require significant business restructuring charges.

Total cost of telecommunications services decreased over the last two years primarily because of our network modernization program, including the effects of the accelerated digitization charges and credits reflected in 1988 and 1990 results. The decreased costs and increased revenues led to an improvement in the gross margin percentage on telecommunications services to 66.1 percent in 1990 compared with 63.7 percent in 1989 and 22.7 percent in 1988.

Modernization of the AT&T Worldwide Intelligent Network and technological and other advances enabled us to reduce network operating and maintenance costs over the last two years. However, other recurring operating costs of telecommunications services increased in 1990 after decreasing in 1989. Network additions caused depreciation to increase in 1990 after a decrease the previous year. The 1989 reduction in depreciation due to the 1988 writedown was largely offset by the depreciation effects of accounting changes implemented on January 1, 1989 and network additions. Netting these effects, depreciation of the network decreased by approximately $90 million in 1989 compared with 1988. The accounting changes included accelerated depreciation methods, shortened depreciable lives and reduced net salvage on certain network equipment to reflect the rapid changes occurring in technology and customer requirements. (See also Note (B).)

In addition to the effects of restructuring charges in 1990 and a one-time $100 million payment to manufacturing employees in 1989 associated with the new labor contract, the increase in cost of products and systems over the last two years has reflected higher unit volumes. The gross margin percentage on products and systems declined to 38.5 percent in 1990 from 39.4 percent in 1989 and 42.0 percent in 1988, reflecting stiff price competition in our major equipment lines as well as the restructuring charges. Offsetting some of this pricing pressure were improvements in manufacturing productivity and better inventory management.

Cost of rentals and other services declined along with the revenues. Despite the effects of restructuring charges, the gross margin percentage for rentals and other services increased to 54.9 percent in 1990 from 52.2 percent in 1989 and 49.8 percent in 1988. The improvement was primarily the result of cost reductions.

Cost of financial services and leasing increased along with the expansion in these operations over the last two years. The gross margin percentage declined to 19.2 percent in 1990 from 41.6 percent in 1989 and 49.3 percent in 1988. The decline in 1990 largely reflected start-up costs for credit card operations. In addition, operating leases have lower margins than capital leases during the early years and these operating leases increased as a proportion of total leasing activities over the last two years.

Selling, general and administrative expenses increased over the last two years primarily because of higher spending for advertising, sales and customer support operations to protect core businesses, and spending to expand in international and new business markets. Spending for these purposes is expected to continue increasing in 1991.

Research and development expenses decreased $219 million in 1990 after increasing $80 million in 1989. In 1990, a greater proportion of development work related to customer support and ongoing product enhancements, some of which is classified as marketing and sales expense. In addition, we sold our synchronous terminal products business during the year and reduced the research staff dedicated to microelectronics products development. Also, more software development work was capitalized in 1990. In 1989, research and development expenses increased primarily because of projects focused on international markets.

Adding to costs and expenses over the past two years were higher expenditures for employee and retiree health care benefits. To control costs and expenses, we established a cap in 1989, to be effective July 1, 1995, on the health care contributions we will make on behalf of employees who retire on or after March 1, 1990.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The standard requires companies to accrue postretirement benefit expenses during the years employees are working and earning benefits for retirement. Presently, AT&T and most other American businesses expense these benefits as the claims are incurred. AT&T must implement the standard no later than 1993. We are currently studying the standard and considering the accounting alternatives provided. Although the impact of AT&T's adoption of the standard cannot reasonably be estimated at this time, it is known that the new standard will significantly increase reported costs and expenses. The impact in the year of adoption versus subsequent years will depend on the accounting alternatives chosen. (See also Note (O).)

AT&T's operations, like those of other companies in similar businesses, involve the use, disposal and cleanup of substances regulated under environmental protection laws. Among other matters, AT&T, along with many other companies, has been named as a potentially responsible party for a number of Superfund sites. It is difficult to estimate the future impact of actions regarding environmental matters, including potential liabilities to AT&T. However, management believes that cleanup costs and costs related to environmental proceedings under present laws will not have a material effect on AT&T's future capital expenditures, earnings or competitive position.

Other Income and Interest Expense

Other income–net decreased in 1990 after increasing in 1989. In 1989, we realized a $69 million gain from exchanging our holdings of common stock in Ing C. Olivetti & C., S.p.A. (Olivetti) for newly issued shares of Compagnie Industriali Riunite S.p.A., an Italian investment holding company. (See also Notes (F) and (J).) In addition, interest income decreased in 1990 due to our lower average cash balance.

Interest expense consists of interest on debt and other accrued liabilities except for interest associated with financial services operations, which is included in costs. Interest expense increased over the last two years primarily because of higher accrued liabilities, additional short-term financing needs and lower capitalization of interest costs. (See also Note (K) for further details on interest expense.)

Provision for Income Taxes

The provision for income taxes increased in 1990 because of higher income before income taxes and a higher effective tax rate. Income taxes are reflected at the statutory income tax rates applied to income before income taxes, adjusted for permanent differences between income before income taxes and taxable income and certain credits. The effective tax rate (that is, the ratio of the provision for income taxes to income before income taxes) increased to 35.3 percent in 1990 compared with 32.4 percent in 1989. The increase in effective tax rate was due primarily to reduced tax credits resulting from previously enacted tax law changes. Income taxes paid increased to $759 million in 1990 compared with $601 million in 1989 and $657 million in 1988.

In 1987, the FASB issued FAS No. 96, "Accounting for Income Taxes," which would significantly change the method of accounting for income taxes. Among other provisions, the standard requires deferred tax balances to be determined using the enacted income tax rates for the years in which the taxes will actually be paid or refunds received. Currently, AT&T's deferred tax accounts reflect the statutory rates that applied when the deferrals were initiated. As a result, management expects a significant increase in net income when we adopt the standard. Once adopted, further changes in statutory income tax rates could significantly affect net income. The FASB currently is considering changes to the standard, and the deadline for adoption has been deferred to fiscal years beginning after December 15, 1991; for AT&T, that is 1992. Consequently, the impact of our adoption of the standard cannot reasonably be estimated at this time. (See also Note (G).)

Total Assets, Working Capital and Liquidity

Total assets increased to $43.8 billion in 1990, driven by increases in finance receivables, prepaid pension costs, and property, plant and equipment–net. The increase in finance receivables is an expected result of credit card operations and equipment financing programs. These operations are growing rapidly and finance receivables will similarly continue to increase. The increase in finance receivables has been financed largely with short- and medium-term debt, primarily reflected in debt maturing within one year. The increase in property, plant and equipment, net of accumulated depreciation, was primarily due to capital additions and the adjustments to the reserves associated with the accelerated digitization program.

Working capital, defined as current assets less current liabilities, decreased $367 million in 1990. The decline primarily reflected higher debt maturing within one year, higher other current liabilities and lower inventories, partially offset by higher receivables. The increase in other current liabilities primarily reflects business restructuring reserves. The decrease in inventories primarily reflects continued improvement in the coordination of manufacturing and sales functions. The increase in accounts receivable was associated with the increase in total sales and revenues and also reflected 1990 acquisitions.

Increases in deferred taxes reflected normal timing differences principally related to property, plant and equipment. The increase in prepaid pension expenses was primarily the result of cash contributions to the pension fund and the net pension credit. (See also Note (N).) The increase in other assets is the result of additional capitalization of software production costs, pre-funding long-term disability benefits and additional goodwill related to acquisitions. The increase in other liabilities primarily reflects business restructuring costs. The decrease in accounts payable primarily reflects lower access charges resulting from lower prices for access.

Cash and temporary cash investments increased as cash provided by operating and financing activities exceeded cash requirements for the investing activities discussed below. Net cash provided by operating activities increased to $5.5 billion in 1990 from $4.9 billion in 1989 and $5.1 billion in 1988. The growth in cash provided to AT&T by customers, reflecting the increase in total revenues, has exceeded the growth in cash needs for payments to AT&T's suppliers. For the past two years, cash flows provided by operating activities have been adequate for capital expenditures and the payment of dividends. Our investment in finance receivables primarily has been financed externally. Management anticipates that cash flows provided by operating activities will continue to be adequate to finance capital expenditures and to pay dividends in 1991.

Investing Activities

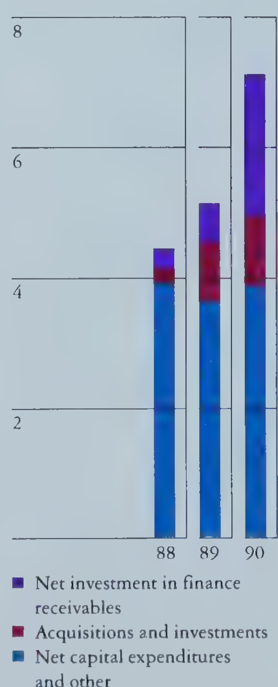
Net capital expenditures increased in 1990 as we expanded operating lease activities in AT&T Capital and increased spending on manufacturing facilities. In 1989, net capital expenditures declined from the 1988 peak related to our expansion and modernization of the AT&T Worldwide Intelligent Network. Net expenditures on the network remained a robust $2.7 billion in 1990 compared with $2.9 billion in 1989 and $3.0 billion in 1988. In our network, all domestic switched traffic is now carried digitally and we are making rapid progress converting private lines. Net capital expenditures in total are expected to be slightly higher in 1991.

During the same period, we expanded the finance leasing operations of AT&T Capital and accelerated our investment in finance receivables, including card receivables, to stimulate further growth in revenues from financial services and leasing. These capital requirements are expected to continue increasing in 1991.

Investments, acquisitions and related activities over the past three years are in support of our strategic objectives and enhance our future prospects for growth in revenues and earnings. (See also Notes (C) and (J).) We broadened our capabilities in financial services, filled niches in our product lines and increased our global presence. We strengthened our competitive position by sharing ownership in certain ventures with new partners. In some cases, we disposed of operations that were not critical to our strategic focus.

In 1990, we acquired substantially all the assets, and assumed $8 million of related liabilities, of two divisions of a subsidiary of PacifiCorp Financial Services, Inc. for approximately $477 million. This first quarter purchase broadened our financing capabilities and customer base for franchise and media businesses and for certain manufacturers. In the second quarter, we sold our synchronous terminal products business and related assets to Memorex Telex Corporation for proceeds consisting of cash, receivables and 2.25 million shares of Memorex Telex N.V. In the third quarter, we acquired U.S. Instrument Rentals, Inc. (Instrument Rentals). With assets of approximately $116 million at acquisition, Instrument Rentals broadens our offerings to customers for electronic, chemical and analytical test equipment as well as data equipment. At year-end, we acquired certain net assets of the Business Services Group of Western Union Corporation for approximately $180 million to enhance our global electronic messaging capability. The acquired operations provide international and domestic telex, packet network and electronic messaging services.

Investing Activities
in Billions of Dollars



In 1989, we entered into a joint venture with GTE Corporation (GTE) to develop new technology and capabilities for GTE's digital switching systems. AT&T has a 49 percent interest in the new company, called AG Communications Systems Corporation, acquired at a cost of approximately $112 million. Under the agreement, AT&T's ownership will increase to 80 percent in 1994 and to 100 percent in 2004. We also acquired all of the issued and outstanding common stock of Paradyne for approximately $250 million and exchanged approximately 2 million shares of AT&T common stock for all of the outstanding shares of Eaton Financial Corporation (Eaton). Paradyne is engaged principally in developing, manufacturing and servicing data communications equipment. Eaton is an equipment financing company. We acquired a 20 percent interest in Italtel, S.p.A. (Italtel), a manufacturer of public and private telecommunications systems based in Italy, in exchange for a 20 percent interest in AT&T Network Systems International B.V. and $135 million cash. AT&T and Italtel will jointly pursue contracts to supply network equipment in and outside of Italy. We also acquired all of the issued and outstanding shares of ISTEL, an information technology services company based in the United Kingdom, for approximately $285 million and exchanged our equity investment of 100 million shares of Olivetti for newly issued voting and non-voting shares of Compagnie Industriali Riunite S.p.A. (CIR). CIR is an Italian holding company with investments in information technologies, publishing, financial services and automotive components. In the second quarter of 1990, we sold the non-voting shares of CIR for $175 million. We still hold the CIR voting shares as an investment.

In 1988, we agreed to purchase up to a 20 percent interest in Sun Microsystems, Inc. (Sun) over three years. We raised our ownership to 18.8 percent of shares outstanding at December 31, 1990, after increasing to 16.4 percent at year-end 1989 from 9.7 percent at year-end 1988. In 1991, we purchased an additional 492 thousand shares of Sun, raising our ownership to 19.2 percent. In 1988, we also increased our ownership in AT&T Network Systems International from 50 percent to 60 percent and began consolidating the venture in our financial statements. Since then, we have further increased our ownership and brought new partners into the venture. At year-end 1990, we owned 80.5 percent of the venture.

We are currently negotiating with a number of prospective investors in our UNIX System Laboratories, Inc. subsidiary. UNIX® is a widely used operating system for computers. We plan to sell a non-majority interest in this subsidiary to encourage industry commitment to open computer systems based on UNIX.

On December 6, 1990, we initiated a cash tender offer of approximately $6.1 billion, or $90 per share, for all the outstanding common stock and associated preferred stock purchase rights of NCR. The offer was made subject to a number of conditions that have not yet been satisfied as of the date of this report, including the inapplicability of NCR's preferred stock purchase rights and the Maryland Business Combination Law. The tender offer will expire February 15, 1991, unless extended. As of January 15, 1991, we had received valid tenders for approximately 70 percent of NCR's outstanding common shares. In addition, we have received written requests and letters of instruction from holders of a majority of NCR's outstanding shares to require NCR to hold a special meeting of its shareowners. At that meeting, those shareowners would consider replacing all members of the NCR Board of Directors and adopting a resolution asking NCR's Board to accept AT&T's, or a better, offer. (See also Note (S).)

Financing Activities and Capitalization

The development of our financial services and leasing business over the last three years has been the principal reason for the increase in total debt outstanding and most of our financing activities. Our expansion in this business reflects our 1990 entry into credit card operations as well as the continuing growth of AT&T Capital.

During 1990, AT&T Capital issued $934 million from a shelf registration for $2.1 billion of notes and warrants. AT&T issued $300 million from a shelf registration for $976 million of notes and warrants, primarily to finance credit card receivables. Management anticipates continued and increasing capital requirements for its financial services operations. These requirements will be met primarily through additional debt financing.

In addition, in March 1990 AT&T established an Employee Stock Ownership Plan (ESOP) feature for its existing non-management savings and security plan. Under the ESOP feature, the plan's trust borrowed $550 million through a private placement for a term of ten years at an interest rate of 7.43 percent and used the proceeds to purchase approximately 13.4 million newly issued shares of AT&T common stock. The debt of the trust is guaranteed by AT&T and the related shares are being allocated to participants over ten years commencing in July 1990 as contributions are made to the plan. (See also Notes (K) and (L).)

We also issued new shares of AT&T common stock to fulfill part of the requirements of the dividend reinvestment and employee savings programs during 1990. The proceeds from all newly issued shares are being used for general corporate purposes.

We have commitments from a consortium of 57 banks to lend us up to $6 billion in connection with the potential business combination with NCR or for general corporate purposes subject to certain limitations. If no lending agreement is signed, the commitments expire April 30, 1991. (See also Notes (K) and (S).)

The ratio of total debt to total debt plus total equity increased to 49.7 percent at December 31, 1990, compared with 45.3 percent at December 31, 1989. Excluding financial services and leasing operations, the debt ratio was 41.2 percent at December 31, 1990, compared with 39.4 percent at December 31, 1989.

Return on average common equity declined to 19.7 percent in 1990 from 22.2 percent in 1989 because of the increase in average common equity, primarily from retained earnings.

Consolidated Statements of Income

AT&T and Subsidiaries

Years Ended December 31

Dollars in millions (except per share amounts)	1990	1989*	1988*
Sales and Revenues			
Telecommunications services, net of access and other interconnection charges (A)	$19,691	$19,526	$18,525
Sales of products and systems	12,201	11,525	11,334
Rentals and other services	4,631	4,716	5,142
Financial services and leasing	762	382	217
Total revenues	37,285	36,149	35,218
Costs and Expenses			
Cost of telecommunications services			
Recurring operating costs (B) (E)	7,082	7,097	7,590
Accelerated digitization program costs (D)	(400)	—	6,724
Total cost of telecommunications services	6,682	7,097	14,314
Cost of products and systems (A) (E)	7,505	6,987	6,571
Cost of rentals and other services (E)	2,088	2,255	2,580
Cost of financial services and leasing	616	223	110
Selling, general and administrative expenses (E)	13,136	12,634	12,129
Research and development expenses	2,433	2,652	2,572
Total costs and expenses (N) (O)	32,460	31,848	38,276
Operating income (loss)	4,825	4,301	(3,058)
Other income – net (F)	232	382	260
Interest expense (K)	828	691	584
Income (Loss) before income taxes	4,229	3,992	(3,382)
Provision for income taxes (G)	1,494	1,295	(1,713)
Net Income (Loss)	$ 2,735	$ 2,697	$(1,669)
Weighted average common shares outstanding (millions)	1,089	1,077	1,075
Earnings (Loss) per Common Share	$ 2.51	$ 2.50	$ (1.55)

*1989 and 1988 amounts were restated to conform to current presentation. (See also Note (B).)

The notes on pages 28 through 35 are an integral part of the financial statements.

Consolidated Balance Sheets

At December 31

Dollars in millions (except per share amounts)	1990	1989*
Assets		
Current Assets		
Cash and temporary cash investments (M)	$ 1,389	$ 1,183
Receivables less allowances of $480 and $442 (I)		
Accounts receivable	9,277	8,664
Finance receivables	3,013	891
Inventories (A)	2,626	3,206
Deferred income taxes (G)	1,086	942
Other current assets	385	405
Total current assets	17,776	15,291
Property, plant and equipment–net (H) (I)	17,472	15,919
Investments (J)	1,418	1,187
Finance receivables (I)	2,320	1,709
Prepaid pension costs (N)	2,842	2,067
Other assets (A) (C)	1,947	1,514
Total Assets	$43,775	$37,687
Liabilities and Shareowners' Equity		
Current Liabilities		
Accounts payable	$ 4,566	$ 4,763
Payroll and benefit-related liabilities	2,640	2,571
Debt maturing within one year (K)	4,804	2,426
Dividends payable	360	323
Other current liabilities	2,719	2,154
Total current liabilities	15,089	12,237
Other Liabilities and Deferred Credits		
Long-term debt including capital leases (I) (K)	9,118	8,144
Other liabilities	1,501	1,390
Deferred income taxes (G)	2,988	2,070
Unamortized investment tax credits	736	819
Other deferred credits	250	289
Total other liabilities and deferred credits	14,593	12,712
Shareowners' Equity (L) (P)		
Common shares–par value $1 per share	1,092	1,076
Authorized shares: 1,500,000,000		
Outstanding shares: 1,092,143,000 at December 31, 1990; 1,075,798,000 at December 31, 1989		
Additional paid-in capital	9,354	8,700
Guaranteed ESOP obligation	(519)	—
Retained earnings	4,166	2,962
Total shareowners' equity	14,093	12,738
Total Liabilities and Shareowners' Equity	$43,775	$37,687

*1989 amounts were restated to conform to current presentation.

The notes on pages 28 through 35 are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31

Dollars in millions	1990	1989*	1988*
Cash Flows from Operating Activities			
Net income (loss)	$2,735	$2,697	$(1,669)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,396	3,366	3,690
Net (increase) decrease in operating assets and liabilities (M)	(197)	(1,098)	(2,964)
Accelerated digitization program costs associated with plant assets	(705)	—	6,196
Other adjustments for non-cash items	234	(67)	(138)
Net cash provided by operating activities	5,463	4,898	5,115
Cash Flows from Investing Activities			
Capital expenditures net of proceeds from sale or disposal of property, plant and equipment of $38, $71 and $86 (M)	(3,629)	(3,565)	(3,942)
Investment in finance receivables, net of lease-related repayments of $2,787, $1,799 and $1,294	(2,240)	(587)	(369)
Net increase in investments	(300)	(518)	(230)
Acquisitions, net of cash acquired (M)	(776)	(383)	(8)
Other investing activities – net	(221)	(92)	63
Net cash used in investing activities	(7,166)	(5,145)	(4,486)
Cash Flows from Financing Activities			
Proceeds from long-term debt issuance	1,518	829	463
Retirements of long-term debt	(1,087)	(630)	(435)
Issuance of common shares	670	52	8
Redemption of preferred shares	—	—	(60)
Dividends paid	(1,402)	(1,290)	(1,290)
Increase (decrease) in short-term borrowings – net	2,247	577	(78)
Other financing activities – net	(37)	(129)	(3)
Net cash provided by (used in) financing activities	1,909	(591)	(1,395)
Increase (decrease) in cash and temporary cash investments	206	(838)	(766)
Cash and temporary cash investments at beginning of year (M)	1,183	2,021	2,787
Cash and temporary cash investments at end of year (M)	$1,389	$1,183	$2,021

*1989 and 1988 amounts were restated to conform to current presentation.

The notes on pages 28 through 35 are an integral part of the financial statements.

Dollars in millions (except per share amounts)

(A) Summary of Significant Accounting Policies

Consolidation
The consolidated financial statements include the accounts of AT&T and all its significant majority-owned subsidiaries. Investments in 20%- to 50%-owned companies and joint ventures are accounted for using the equity method.

Access and Other Interconnection Charges
Telephone companies charge AT&T for using their local facilities to connect customers to the AT&T Worldwide Intelligent Network. These charges are collected from customers in AT&T's prices. Because the charges essentially are collected by AT&T on behalf of the telephone companies, the charges are not included in AT&T's reported operating revenues. Most interconnection charges applying to wholly domestic services are called access charges. Most other interconnection charges are for AT&T-billed international services. Total access and other interconnection charges amounted to $18,692 in 1990, $19,104 in 1989 and $20,590 in 1988. Access charges included in these totals amounted to $14,036 in 1990, $14,864 in 1989 and $16,764 in 1988.

Research and Development
Research and development expenditures are charged to expense as incurred. The development costs of software to be marketed are charged to research and development expense until technological feasibility is established. After that time, the remaining software production costs are capitalized as other assets and amortized to product costs over the estimated period of sales. Such amortization amounted to $216 in 1990, $182 in 1989 and $182 in 1988. Unamortized software production costs were $559 and $406 at December 31, 1990 and 1989, respectively.

Investment Tax Credits
For financial reporting purposes, AT&T amortizes the investment tax credit (ITC) as a reduction to income tax expense over the useful life of the property that produced the credit. (See also Note (G).)

Inventories
Inventories are stated at the lower of cost or market. Cost is determined principally on a first-in, first-out (FIFO) basis.

At December 31	1990	1989
Completed goods	$1,526	$1,774
In process	819	1,040
Raw materials and supplies	281	392
Total	$2,626	$3,206

Property, Plant and Equipment
Property, plant and equipment are stated at cost. The carrying value of telecommunications plant was reduced in 1988, in connection with the accelerated digitization program, by increasing accumulated depreciation. (See also Note (D).)

Gains or losses on sales of factory machinery and laboratory equipment in the normal course of business are reflected in operating results. As most other depreciable plant is retired, the original cost is removed from the plant account and from accumulated depreciation. (See also Note (H).)

Depreciation
Depreciation is calculated using either the group or unit method. The unit method is used primarily for factory machinery, laboratory equipment, large computer systems, and certain international earth stations and submarine cables. Factory facilities placed in service subsequent to December 31, 1979, electronic digital switching equipment placed in service subsequent to December 31, 1988, digital circuit equipment, digital operator services equipment and radio equipment are all depreciated on an accelerated basis. All other plant and equipment are depreciated on a straight-line basis.

Goodwill
The excess of the purchase price over the fair value of net assets acquired in acquisitions accounted for using the purchase method is treated as goodwill. These amounts are amortized on a straight-line basis over the periods benefited, principally in the range of 10 to 15 years. Such amortization amounted to $44 in 1990, $15 in 1989 and $(5) in 1988. Goodwill, net of accumulated amortization, was $532 and $421 at December 31, 1990 and 1989, respectively.

(B) Accounting and Reporting Changes

Changes in Income Statement Presentation
Effective December 31, 1990, revenues and costs for telecommunications services and for financial services and leasing (other than operating lease rentals of AT&T products) are separately reported to permit the impacts of trends and AT&T's changing presence in these markets to be more easily discerned. Revenues and costs associated with rentals of AT&T products under operating leases are combined with those of other services (mostly product-related installation and maintenance services) because these rentals and product-related services share support staffs and facilities and because rentals have declined in significance.

Also effective December 31, 1990, certain income from financial services and leasing operations is reclassified to revenues, from other income–net, to conform to standard industry reporting practices.

The changes in presentation were made to improve the understandability of reported results and had no impact on AT&T's net income (loss). Prior year statements of income were restated to conform to the current year presentation.

Accounting Change

Effective January 1, 1989 for certain network equipment, AT&T changed its method of depreciation from straight-line to sum-of-the-years' digits, shortened the estimated depreciable lives and decreased the estimated net salvage. These changes were implemented to better match revenues and expenses because of rapid technological changes occurring in response to customer requirements and competition. The new depreciation method was applied retroactively to all digital circuit, digital operator services and radio equipment and was applied to digital electronic switching equipment placed into service after December 31, 1988. Other network equipment, principally lightguide cable and central office buildings, continues to be depreciated on a straight-line basis. The changes in estimates of depreciable lives and net salvage were made prospectively. The effect of these changes on 1989 results was to decrease net income by approximately $393 or $.36 per share. The cumulative prior years' effect of the change in depreciation method was not material. (See also Note (D).)

Reclassifications

Certain amounts for previous years have been reclassified to conform with the 1990 presentation.

(C) Acquisitions

Acquisitions were not material, either individually or in the aggregate, in relation to the year of acquisition or prior years.

Paradyne Corporation (Paradyne) – AT&T acquired Paradyne, a data communications equipment manufacturer, for approximately $250. The acquisition was accounted for using the purchase method; goodwill of approximately $165 is being amortized on a straight-line basis over 15 years. The results of operations and net assets of Paradyne are included in the consolidated financial statements as of January 1, 1989.

Eaton Financial Corporation (Eaton) – AT&T acquired Eaton, an office equipment financing company, in exchange for approximately 2 million shares of AT&T common stock. The acquisition was accounted for as a pooling-of-interests; however, prior year results were not restated due to immateriality. Eaton is included in the consolidated financial statements as of January 1, 1989.

ISTEL Group Ltd. (ISTEL) – AT&T acquired ISTEL, an information technology services company based in the United Kingdom, for approximately $285, consisting of $181 cash and $104 in six-year notes to ISTEL shareholders. The acquisition was accounted for under the purchase method; goodwill of approximately $267 is being amortized on a straight-line basis over 10 years. The results of operations and net assets of ISTEL are included in the consolidated financial statements as of November 1, 1989.

PacifiCorp Financial Services, Inc. (PacifiCorp) – AT&T acquired substantially all the assets, and assumed $8 of related liabilities, of two financing divisions of a subsidiary of PacifiCorp for approximately $477. The acquisition was accounted for using the purchase method; goodwill of approximately $17 is being amortized on a straight-line basis over 20 years. The results of operations and net assets of the acquired divisions are included in the consolidated financial statements as of February 1, 1990.

Western Union Corporation Business Services Group (BSG) – AT&T acquired certain assets and liabilities of a division of Western Union Corporation for approximately $180. BSG provides international and domestic telex, packet network and electronic messaging services. The acquisition was accounted for using the purchase method; goodwill of approximately $61 is being amortized on a straight-line basis over 15 years. The net assets of BSG are included in the consolidated financial statements as of December 31, 1990; the results of operations of BSG will be included in the consolidated financial statements beginning January 1, 1991.

(D) Accelerated Digitization Program Costs

In 1988, AT&T accelerated the digitization of its long distance network. As a result, older analog plant and equipment became impaired. Accordingly, a charge was recorded in cost of telecommunications services. The charge consisted of the following components: $4,965 for the writedown of network analog telecommunications plant, $614 for the writedown of support assets and $699 for the estimated net asset removal cost. Expenses totaling $446 were also recorded for the force reductions associated with the accelerated digitization program. These actions reduced net income by $3,935 or $3.66 per share in 1988.

During 1990, AT&T made adjustments to these previously established reserves to reflect additional costs for certain force reductions and facility consolidations and a decrease in equipment removal costs primarily because of work efficiencies, which resulted in a $400 net reduction in the reserves. The additional force reductions in AT&T's network services and operator services organizations include the impact of special pension options. (See also Note (N).)

As of December 31, 1990, $354 of the total reserves for the accelerated digitization program remained, which management believes is adequate for the completion of force downsizing and other activities in connection with this program.

(E) Business Restructuring Charges

In addition to accelerated digitization program costs, AT&T recorded approximately $495 in charges in 1990 for business restructuring activities. The charges were approximately $20 in cost of telecommunications services, $300 in cost of products and systems, $110 in cost of rentals and other services, and $65 in selling, general and administrative expenses. Actions included restructuring operations for producing microelectronics components and systems and for reclaiming scrap metal, and resizing the product technician work force. As of December 31, 1990, $237 of reserves remained for business restructuring activities unrelated to the accelerated digitization program.

(F) Other Income – Net

	1990	1989	1988
Interest, royalties and dividends	$194	$232	$239
Equity earnings from unconsolidated entities	15	(16)	48
Miscellaneous – net	23	166	(27)
Total	$232	$382	$260

Interest income excludes interest associated with financial services operations, which is included in revenues. Miscellaneous – net in 1989 includes a $69 gain from the exchange of AT&T's equity investment of 100 million shares of Ing C. Olivetti & C., S.p.A. (Olivetti) for newly issued shares in Compagnie Industriali Riunite S.p.A. (See also Note (J).)

(G) Income Taxes

The principal reasons for the differences between federal income tax expense computed at the federal statutory rate and AT&T's provision for income taxes are explained below:

	1990	1989	1988
Statutory federal income tax rate	34%	34%	34%
Federal income tax at statutory rate	$1,438	$1,357	$(1,150)
Amortization of investment tax credits	(176)	(256)	(583)
State and local income taxes, net of federal income tax effect	170	190	(134)
Research credits	(9)	(42)	(24)
Other differences	71	46	178
Provision for income taxes	$1,494	$1,295	$(1,713)

The provision for income taxes consists of the following components:

	1990	1989	1988
Current			
Federal	$ 641	$ 481	$ 507
State and local	150	194	111
Foreign	32	16	13
	823	691	631
Deferred			
Federal	646	573	(1,573)
State and local	107	95	(313)
Foreign	1	—	1
	754	668	(1,885)
Deferred investment tax credits – net*	(83)	(64)	(459)
Provision for income taxes	$1,494	$1,295	$(1,713)

*Net of amortization of $176 in 1990, $256 in 1989 and $583 in 1988.

Deferred taxes, resulting from timing differences in the recognition of revenue and expense items for tax and financial reporting purposes, were as follows:

	1990	1989	1988
Property, plant and equipment	$ 605	$ 197	$(2,374)
Business restructuring	69	214	230
Pensions and other benefits	139	270	219
Other timing differences	(59)	(13)	40
Total	$ 754	$ 668	$(1,885)

In 1987, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 96, "Accounting for Income Taxes." Among other provisions, the standard requires deferred tax balances to be determined using the enacted income tax rates for the years in which the taxes will actually be paid or refunds received. Currently, AT&T's deferred tax accounts reflect the statutory rates in effect when the deferrals were initiated. As a result, FAS No. 96 is expected to significantly increase net income in the year of adoption. The FASB currently is considering changes to the standard and the deadline for adoption has been deferred to fiscal years beginning after December 15, 1991. Consequently, the impact from AT&T's adoption of the standard cannot reasonably be estimated at this time.

(H) Property, Plant and Equipment

At December 31	1990	1989
Land and improvements	$ 580	$ 592
Buildings and improvements	7,589	7,438
Machinery, electronic and other equipment	30,360	32,800
Total property, plant and equipment	38,529	40,830
Less: Accumulated depreciation	21,057	24,911
Property, plant and equipment – net	$17,472	$15,919

(I) Leases

As Lessor: AT&T leases equipment to others through operating leases; the majority of these are cancelable. The minimum future rentals on noncancelable leases are $283 in 1991, $165 in 1992, $57 in 1993, $17 in 1994, $1 in 1995 and $0 in later years. AT&T's net investment in equipment used to support leasing operations, included in property, plant and equipment, was as follows:

At December 31	1990	1989
Machinery, electronic and other equipment	$3,205	$2,978
Less: Accumulated depreciation	1,753	1,875
Net investment	$1,452	$1,103

AT&T also provides direct financing and other leasing programs for its products and those of other companies and leases its products to others under sales-type leases. AT&T's net investment in direct financing and sales-type leases amounted to $2,258 and $2,145, including residual values of $332 and $306 and reflected net of unearned income of $563 and $656, in 1990 and 1989, respectively. Finance service revenues are recognized over the life of the respective leases using the interest method. The future maturities of these finance assets are $943 in 1991, $723 in 1992, $479 in 1993, $253 in 1994, $95 in 1995 and $29 in later years. AT&T's net investment in leveraged leases, net of deferred taxes of $183 and $30, amounted to $357 and $143, including rentals receivable (net of principal and interest on non-recourse notes) of $400 and $129, residual values of $462 and $154 and reflected net of unearned and deferred income of $321 and $109 in 1990 and 1989, respectively. Leveraged leases have terms ranging from 3 to 25 years, expiring in various years from 1992 through 2015.

As Lessee: AT&T leases land, buildings and equipment through contracts that expire in various years. Future minimum lease payments at December 31, 1990 are as follows:

	Capital Leases	Operating Leases
1991	$ 120	$ 644
1992	66	492
1993	43	322
1994	29	177
1995	23	125
Later years	86	435
Total minimum lease payments	367	$2,195
Less: Estimated executory cost	1	
Imputed interest	123	
Present value of net minimum lease payments	$ 243	

Rental expense for operating leases was $1,679 in 1990, $1,114 in 1989 and $1,106 in 1988.

(J) Investments

The significant investments of AT&T are listed below:

Sun Microsystems, Inc. (SUN)–18.8% of shares outstanding at December 31, 1990. This investment is stated at the lower of cost or market and amounted to $393 (market) and $285 (market) at December 31, 1990 and 1989, respectively. In February 1991, AT&T raised its ownership to 19.2% of shares outstanding.

AG Communications Systems Corporation–In the first quarter of 1989, AT&T entered into a joint venture with GTE Corporation (GTE) to develop new technology and capabilities for GTE's digital switching systems. Under the agreement with GTE, AT&T has a 49% interest in the joint venture, acquired at a cost of approximately $112, and will increase its ownership to 80% in 1994 and to 100% in 2004.

Italtel S.p.A. (Italtel)–In the second quarter of 1989, AT&T acquired a 20% interest in Italtel in exchange for a 20% interest in AT&T Network Systems International B.V. plus $135 in cash. No gain or loss was recorded on the exchange. Italtel is a manufacturer of public and private telecommunications systems based in Italy.

Compagnie Industriali Riunite S.p.A. (CIR)–In the fourth quarter of 1989, AT&T received 91.25 million ordinary (voting) shares and 91.25 million savings (non-voting) shares of CIR, both newly issued, in exchange for its interest in Olivetti. CIR is an Italian holding company with investments in information technologies, publishing, financial services and automotive components. The fair value of the CIR shares at the date of the exchange was $492.

In the second quarter of 1990, AT&T sold its 91.25 million savings shares for $175, approximately book value. In accordance with the terms of the acquisition agreement, AT&T will retain its 17.3% ownership of ordinary shares until at least 1994. (See also Note (F).)

AT&T's equity investments were $645 and $520 at December 31, 1990 and 1989, respectively. Dividends received from equity investments were $11 in 1990 and $1 in 1989. Investments stated at cost (principally CIR) or at the lower of cost or market (SUN) were $773 at December 31, 1990 and $667 at December 31, 1989.

(K) Debt Obligations

Outstanding long-term debt obligations at December 31 were as follows:

Interest Rates	Maturities	1990	1989
Debentures:			
3 7/8% to 4 3/4%	1990-1999	$1,300	$1,550
5 1/8% to 7 1/4%	1990-2003	1,867	1,858
7 1/2% to 9%	1990-2026	2,480	2,559
Notes:			
5% to 7 3/4%	1990-2014	978	786
7 4/5% to 8 19/20%	1990-2015	1,842	736
9% to 12 7/8%	1990-2004	1,347	1,195
13% to 15 1/2%	1990-1992	111	142
		9,925	8,826
Long-term lease obligations		241	331
Other		163	168
Less: Unamortized discount–net		36	32
		10,293	9,293
Less: Current portion			
Long-term debt		1,075	1,031
Long-term lease obligations		100	116
Other		—	2
Total long-term obligations		$9,118	$8,144

The future maturities of long-term debt are $1,075 in 1991, $784 in 1992, $698 in 1993, $785 in 1994, $489 in 1995, and $6,094 in later years.

The remaining portion of debt maturing within one year consisted principally of commercial paper, which amounted to $3,524 and $1,214 at December 31, 1990 and 1989, respectively.

Interest expense consists of interest on short-term and long-term debt and interest on accrued liabilities. AT&T capitalized interest costs of $79 in 1990, $89 in 1989 and $116 in 1988. Interest costs related to financial services operations are included in costs and amounted to $292 in 1990, $167 in 1989 and $96 in 1988.

In March 1990, AT&T established an Employee Stock Ownership Plan (ESOP) feature for its existing non-management savings and security plan. Under this feature, the plan's trust borrowed $550 through a private placement for a term of ten years at an annual interest rate of 7.43% and used the proceeds to purchase AT&T common stock. Because AT&T has guaranteed the trust's borrowings, they are reported as long-term debt of the Company. The shares issued by AT&T to the trust are reflected in shareowners' equity and an amount corresponding to the borrowings (the guaranteed ESOP obligation) is reported as a reduction within shareowners' equity. As the principal amount of the borrowings is repaid, the liability and the guaranteed ESOP obligation is being reduced. AT&T recognizes expense each year based on the shares allocated

method. AT&T's cash contributions are determined based on the ESOP's total debt service less dividends paid on ESOP shares. (See also Note (L).)

During 1990, AT&T Capital Corporation issued $934 from a $2,100 shelf registration for notes and warrants. AT&T issued $300 from a $976 shelf registration for notes and warrants, primarily to finance credit card receivables. AT&T also negotiated a $1,500 line of credit with a consortium of 28 banks. This line of credit, which is currently unused, supports AT&T's issued commercial paper. In addition, a consortium of 57 banks is committed to lend AT&T up to $6,000 to finance the potential business combination with NCR Corporation (NCR) or for general corporate purposes subject to certain limitations. If no lending agreement is signed, the commitments expire April 30, 1991.

(L) Shareowners' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance at December 31, 1987	$1,074	$8,605	$ 4,776
Net loss in 1988	—	—	(1,669)
Dividends declared	—	—	(1,289)
Shares issued under employee plans	—	8	—
Translation adjustments	—	—	(59)
Other changes	—	—	19
Balance at December 31, 1988	1,074	8,613	1,778
Net income in 1989	—	—	2,697
Dividends declared	—	—	(1,291)
Shares issued under employee plans	3	92	—
Shares repurchased	(3)	(27)	(100)
Translation adjustments	—	—	(93)
Other changes	2	22	(29)
Balance at December 31, 1989	1,076	8,700	2,962
Net income in 1990	—	—	2,735
Dividends declared	—	—	(1,439)
Shares issued under employee plans	14	575	—
Shares issued under shareowner plans	3	87	—
Shares repurchased	(1)	(8)	(31)
Translation adjustments	—	—	19
Other changes	—	—	(80)
Balance at December 31, 1990	$1,092	$9,354	$ 4,166

In March 1990, AT&T issued 13.4 million new shares of common stock in connection with the establishment of an ESOP feature for the existing non-management savings and security plan. The shares are being allocated to plan participants over ten years commencing in July 1990 as contributions are made to the plan. The proceeds from the newly issued shares of AT&T common stock are being used for general corporate purposes. (See also Note (K).)

AT&T has 100,000,000 authorized shares of preferred stock at $1 par value. No preferred stock is currently outstanding.

(M) Cash Flow Information

For cash flow reporting purposes, AT&T considers all highly liquid temporary cash investments with maturities generally of three months or less to be cash equivalents.

Net cash flows from operating activities reflect cash payments for interest and income taxes as follows:

	1990	1989	1988
Interest paid, net of amounts capitalized	$890	$765	$681
Income taxes paid	759	601	657

In addition, cash flows from operating activities reflect changes in operating assets and liabilities components as follows:

	1990	1989	1988
(Increase) decrease in accounts receivable	$(602)	$ (262)	$ (476)
(Increase) decrease in inventories	288	178	(19)
(Increase) decrease in other current assets	25	(262)	45
(Increase) decrease in prepaid pension costs and other assets	(997)	(725)	(586)
Increase (decrease) in accounts payable	(218)	(216)	244
Increase (decrease) in payroll and benefit-related liabilities	56	122	102
Increase (decrease) in other current liabilities	490	(303)	(363)
Increase (decrease) in deferred income taxes and investment tax credits	691	573	(2,260)
Increase (decrease) in other liabilities and other deferred credits	70	(203)	349
Net (increase) decrease in operating assets and liabilities	$(197)	$(1,098)	$(2,964)

Non-cash investing and financing activities excluded from the Consolidated Statements of Cash Flows consist primarily of the acquisition of machinery and equipment under capital lease obligations amounting to $85 in 1990, $90 in 1989 and $167 in 1988.

In addition, the following table displays the non-cash assets, liabilities and equity that were consolidated as a result of AT&T's net acquisition activities. (See also Note (C).)

	1990	1989	1988
Non-cash assets, liabilities and equity:			
Net receivables	$223	$236	$205
Inventories	(9)	58	216
Other current assets and other assets	560	557	28
Property, plant and equipment – net	213	139	174
Investments	2	—	—
Accounts payable	(19)	(31)	(70)
Payroll and benefit-related liabilities	(13)	(14)	—
Other current liabilities	(74)	(77)	(146)
Short- and long-term debt	(107)	(333)	(207)
Other long-term liabilities	—	(24)	(9)
Net non-cash assets consolidated	776	511	191
Less: Decrease in investments	—	—	64
Increase in other liabilities	—	—	119
Issuance of common shares	—	24	—
Increase in debt maturing in one year	—	104	—
Net cash investing activity	$776	$383	$ 8

(N) Employee Benefit Plans

Pension Plans

AT&T sponsors non-contributory defined benefit plans covering substantially all management and non-management employees. Benefits for management employees are based on a career average pay plan; benefits for non-management employees are based on a plan that is not directly pay-related.

AT&T's pension contributions are determined using the aggregate cost method and are made to trust funds that are held for the sole benefit of pension plan participants. Pension cost is computed using the projected unit credit method and includes the following components:

	1990	1989	1988
Service cost-benefits earned during the period	$ 237	$ 415	$ 425
Interest cost on projected benefit obligation	1,878	1,583	1,438
Amortization of unrecognized prior service costs	216	73	39
Credit for expected return on plan assets*	(2,357)	(2,072)	(1,785)
Amortization of transition asset	(480)	(480)	(480)
Charges for special options	165	163	—
Net pension cost (credit)	$ (341)	$ (318)	$ (363)

*The actual return on plan assets was $(159) in 1990, $5,891 in 1989 and $3,060 in 1988.

The funded status of the plan was as follows:

At December 31	1990	1989
Actuarial present value of accumulated benefit obligation, including vested benefits of $21,960 and $20,345, respectively	$24,276	$22,751
Plan assets at market value	$32,064	$33,541
Less: Actuarial present value of projected benefit obligation	24,958	23,285
Excess of assets over projected benefit obligation	7,106	10,256
Unrecognized prior service costs	1,801	1,537
Unrecognized transition asset	(5,238)	(5,718)
Unrecognized net gain	(794)	(3,960)
Adjustment to recognize minimum liability for non-qualified plan	(33)	(48)
Prepaid pension cost	$ 2,842	$ 2,067

The projected benefit obligation was determined using discount rates of 8.5% and 8.25% at December 31, 1990 and 1989, respectively, and an assumed long-term rate of compensation increase of 5.0%. The expected long-term rate of return on plan assets used in determining pension cost was 8.5% for 1990 and 1989, and 8.0% for 1988. The unrecognized transition asset is being amortized over 15.9 years.

Prior service costs are primarily amortized on a straight-line basis over the average remaining service period of active employees. Plan assets consist primarily of listed stocks, corporate and governmental debt, and real estate investments.

Effective December 30, 1989, AT&T made a permanent amendment to its management pension plan to make more managers service-pension-eligible with improved pension benefits. AT&T also offered a special retirement option for employees eligible to retire on December 30, 1989. The special retirement option was accounted for as a termination benefit. Accordingly, pension cost for fourth quarter 1989 included a one-time charge of $163 million.

In the second quarter of 1990, AT&T also made a permanent amendment to the non-management pension plan that enhances pensions for all non-management employees who had five years of service as of May 1, 1990. The amendment added three years of age and service for purposes of calculating service-pension-eligibility, pension discount reduction and an additional minimum pension benefit as of May 1, 1990. This pension benefit calculation will apply until actual age and service result in a greater pension benefit. In addition, AT&T has offered special pension options (SPOs) to selected employee groups with surplus jobs. The affected organizations established the offer dates. Under each SPO, non-management employees who elect to retire will receive an additional two years of age and service for purposes of pension benefit calculations and a 15% supplement to their pensions for five years, until death or until age 65, whichever comes first. In some cases, special cash payments upon retirement will also be made. Special cash payments will be made from operating assets and pension benefits will be paid from pension plan assets. The SPOs, including any lump sum payments, were accounted for as termination benefits. Accordingly, pension costs for 1990 included one-time charges for each SPO, totaling $165 for the year. The costs of SPOs have been covered largely by reversing previously established reserves for business restructuring.

Savings Plans

AT&T sponsors savings plans for substantially all employees. The plans allow employees to contribute a portion of their pretax and/or after-tax income in accordance with specified guidelines. AT&T matches a percentage of the employee contributions up to certain limits. AT&T's contributions amounted to $267 in 1990, $277 in 1989 and $274 in 1988.

(O) Postretirement Benefits

AT&T's benefit plan for retirees includes health care benefits and life insurance coverage.

Health care benefits are provided through insurance company contracts. The annual cost of health care benefits for retirees is the total of claims incurred in their behalf. This cost was $437, $319 and $273 for approximately 123,400, 102,200 and 97,100 retired employees in 1990, 1989 and 1988, respectively.

The cost of providing postretirement life insurance benefits to employees who meet certain age and service requirements is determined and funded under the aggregate cost method. This cost was $26 in 1990, $28 in 1989 and $25 in 1988.

In December 1990, the FASB issued FAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The standard requires companies to accrue postretirement benefits during the years employees are working and earning benefits for retirement. Presently, AT&T expenses these benefits as the claims are incurred. AT&T must implement the standard no later than 1993. Although the impact of AT&T's adoption of the standard cannot reasonably be estimated at this time, the standard will significantly increase reported costs and expenses. The impact in the year of adoption versus subsequent years will depend on the accounting alternatives chosen.

Under the terms of the Divestiture Plan of Reorganization, AT&T reimburses the divested Bell System operating telephone companies for a portion of their costs to provide health care benefits and increases in pensions to pre-divestiture retirees. These costs were expensed as incurred and were $108 in 1990, $91 in 1989 and $101 in 1988.

(P) Stock Options

The AT&T 1987 Long-Term Incentive Program became effective on July 15, 1987. It provides for the granting of stock options, stock appreciation rights (SARs), either in tandem with stock options or free-standing, and other awards. Under this program, 0.6% of the outstanding shares of AT&T common stock on the first day of each calendar year become available for grant in that year or in subsequent years. The exercise price of any stock option shall not be less than 100% of the fair value of the stock on the date of the grant. Exercise of either a related option or a related SAR cancels the other to the extent of such exercise.

Prior to July 15, 1987, stock options were granted under the AT&T 1984 Stock Option Plan. No new options can be granted under the 1984 plan.

Option transactions during 1990, 1989 and 1988 are shown below:

Number of Shares	1990	1989	1988
Balance at January 1	10,195,230	13,339,123	6,450,232
Options granted	1,567,514	205,675	7,523,270
Options and SARs exercised	(770,611)	(3,308,114)	(479,280)
Average price	$25.35	$23.72	$20.06
Options forfeited	(73,979)	(41,454)	(155,099)
At December 31:			
Options outstanding	10,918,154	10,195,230	13,339,123
Average price	$29.15	$26.44	$25.54
Options exercisable	9,388,105	10,033,355	5,964,931
Shares available for grant	14,720,302	10,292,496	4,814,358

During 1990, SARs were granted for 253,431 shares for an average exercise price of $45.35, and 77,983 SARs were exercised. As of December 31, 1990, 1,612,039 SARs remained unexercised, of which 1,353,911 were exercisable.

In addition, 206,139 stock options were assumed in connection with the merger with Eaton in 1989. At December 31, 1990, 85,652 of these options remained outstanding at prices ranging from $12.89 to $34.11 per share.

(Q) Industry Segmentation

AT&T's operations in the global information movement and management industry involve the provision of long distance telecommunications services, and systems, products and services that combine communications and computers. AT&T's operations in the financial services and leasing industry involve direct financing and finance leasing programs for AT&T products and the products of other companies, leasing non-AT&T products to customers under operating leases and being in the general-purpose credit and calling card business. The distribution of computer equipment through retail outlets and miscellaneous other activities, in the aggregate, represent less than 10% of revenues, operating income and identifiable assets and are included in the information movement and management segment. Revenues between segments are not material. Business restructuring charges and accelerated digitization program costs during the three years affected only the information movement and management segment.

	1990	1989	1988
Revenues:			
Information movement and management	$36,523	$35,767	$35,001
Financial services and leasing	762	382	217
	$37,285	$36,149	$35,218
Operating income (loss):			
Information movement and management	5,647	4,959	(2,406)
Financial services and leasing	(130)	74	63
Corporate and non-operating	(1,288)	(1,041)	(1,039)
Income before income taxes	$ 4,229	$ 3,992	$ (3,382)
Total assets:			
Information movement and management	$37,109	$34,002	$32,974
Financial services and leasing	6,690	3,676	2,158
Corporate assets and eliminations	(24)	9	20
	$43,775	$37,687	$35,152
Depreciation and amortization:			
Information movement and management	$ 3,539	$ 3,559	$ 3,852
Financial services and leasing	100	26	19
Capital expenditures:			
Information movement and management	$ 3,141	$ 3,290	$ 3,780
Financial services and leasing	462	258	137

Total liabilities were $5,840, $3,325 and $1,926 at December 31, 1990, 1989 and 1988, respectively, for the financial services and leasing industry segment.

(R) Commitments and Contingencies

Commitments

AT&T uses various financial instruments in the normal course of its business. These financial instruments include commitments to extend credit, letters of credit, interest rate swap transactions and foreign currency exchange contracts.

All such instruments, by their nature, involve risk and the maximum potential loss exceeds the total of contracted amounts. As is customary for these types of financial instruments, AT&T usually does not require collateral or other security from other parties to the instruments. However, because AT&T controls the credit risk of these instruments through

credit approvals, limits and monitoring procedures, management believes that reserves for losses are adequate.

Commitments to Extend Credit

AT&T is engaged in the general-purpose credit and calling card business through AT&T Universal Card Services, a wholly owned subsidiary. Under an agreement with the Universal Bank, a subsidiary of Synovus Financial Corporation that issues the cards, AT&T purchases essentially all cardholder receivables. If all cardholders had utilized their full credit at December 31, 1990, AT&T would have been obligated to purchase $20,250 of receivables in addition to those included in the consolidated balance sheet. Actual cardholder credit utilization is usually only a fraction of available credit. As credit utilization increases, additional revenues from the card operation are generated.

Letters of Credit

Letters of credit are conditional commitments issued on behalf of customers to pay third parties in accordance with specified terms and conditions. At December 31, 1990, AT&T had outstanding letters of credit of $325.

Interest Rate Swap Agreements

AT&T enters into interest rate swap agreements to manage exposure to changes in interest rates by more closely matching the maturity of its debt to that of its finance asset portfolio. The transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. At December 31, 1990, the total notional principal amount of outstanding interest rate swap agreements was $477. In addition to the financial risk that will vary during the life of these swap agreements in relation to the maturity of the underlying debt and market interest rates, AT&T is subject to credit risk exposure from nonperformance of the counterparties to the swap agreements.

Foreign Exchange

AT&T enters into foreign currency exchange contracts, including forward, options and swap contracts, to reduce exposure to foreign currency exchange risk. At December 31, 1990, AT&T had net forward exchange contracts valued at $516, swap contracts valued at $403, and no material options contracts outstanding.

Contingencies

In the normal course of business, AT&T is subject to proceedings, lawsuits and other claims, including proceedings under government laws and regulations related to environmental and other matters. In the opinion of management, after final disposition, any monetary liability or financial impact to AT&T beyond that provided at year-end would not be material to the consolidated financial position of the Company.

(S) Subsequent Events

In response to AT&T's December 6, 1990 cash tender offer for all of the outstanding shares of common stock and the associated preferred stock purchase rights of NCR for $90 per common share or approximately $6,100, AT&T had received valid tenders for approximately 70% of NCR's outstanding common shares as of January 15, 1991. The tender offer will expire February 15, 1991, unless extended. The offer was made subject to a number of conditions that have not yet been satisfied as of the date of this report, including the inapplicability of NCR's preferred stock purchase rights and the Maryland Business Combination Law. AT&T anticipates financing the transaction with cash on hand, existing lines of credit, existing bank commitments, and commercial paper. For the year ended December 31, 1990, NCR reported (unaudited) revenues of $6,285 and net income of $369. (See also Note (K).)

(T) Quarterly Information (unaudited)

Quarterly data for 1989 and the first three quarters of 1990 were restated to conform to current presentation.

Quarters	First	Second	Third	Fourth	Total
1990					
Total revenues	$8,904	$9,038	$9,379	$9,964	$37,285
Total costs and expenses	7,723	7,868	8,115	8,754	32,460
Net income	668	657	712	698	2,735
Earnings per common share	.62	.60	.65	.64	2.51
1989					
Total revenues	$8,666	$9,264	$8,906	$9,313	$36,149
Total costs and expenses	7,683	8,037	7,767	8,361	31,848
Net income	594	699	699	705	2,697
Earnings per common share	.55	.65	.65	.65	2.50

Market and Dividend Data (unaudited)

AT&T common stock is traded on the New York, Philadelphia, Boston, Midwest and Pacific stock exchanges. It also trades on the London, Tokyo and other foreign stock exchanges. The prices shown in the accompanying table were obtained from the Composite Tape encompassing the trading on all the above U.S. exchanges and trades reported by the National Association of Securities Dealers and Instinet. Common shareowners of record totaled 2,486,327 as of December 31, 1990. The payment of common dividends will depend upon AT&T's earnings and financial requirements and other factors. For details of shareowners' equity see Note (L) to the financial statements.

Calendar Quarter	Market Price High	Market Price Low	Dividends Declared
1990			
1st	$46 5/8	$37 1/2	$.33
2nd	44 1/8	37 5/8	.33
3rd	39 1/4	29 7/8	.33
4th	35 1/4	29	.33
1989			
1st	$33	$28 1/8	$.30
2nd	37 1/8	30 1/4	.30
3rd	44 7/8	34 1/2	.30
4th	47	37	.30

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements and all other financial information included in this report. Management is also responsible for maintaining a system of internal controls as a fundamental requirement for the operational and financial integrity of results.

The financial statements, which reflect the consolidated accounts of AT&T and its subsidiaries, and other financial information shown were prepared in conformity with generally accepted accounting principles. Estimates included in the financial statements were based on judgments of qualified personnel.

To maintain its system of internal controls, management carefully selects key personnel and establishes the organizational structure to provide an appropriate division of responsibility. We believe it is essential to conduct business affairs in accordance with the highest ethical standards as set forth in the AT&T Code of Conduct. These guidelines and other informational programs are designed and used to ensure that policies, standards, and managerial authorities are understood throughout the organization. Our internal auditors monitor compliance with the system of internal controls by means of an annual plan of internal audits. On an ongoing basis, the system of internal controls is reviewed, evaluated and revised as necessary in light of the results of constant management oversight, internal and independent audits, changes in the Company's business and other conditions.

Management believes that the system of internal controls, taken as a whole, provides reasonable assurance that (1) financial records are adequate and can be relied upon to permit the preparation of financial statements in conformity with generally accepted accounting principles, and (2) access to assets occurs only in accordance with management's authorizations.

The Audit Committee of the Board of Directors, which is composed of Directors who are not employees, meets periodically with management, the internal auditors, and the independent auditors to review the manner in which these groups of individuals are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Periodically, both the internal auditors and the independent auditors meet privately with the Audit Committee. These auditors also have access to the Audit Committee and its individual members at any time.

The financial statements in this annual report have been audited by Coopers & Lybrand, Independent Auditors. Their audits were conducted in accordance with generally accepted auditing standards and include a consideration of the internal control structure and selective tests of transactions. Their report follows.

Morris Tanenbaum
Vice Chairman
and Chief Financial Officer

Robert E. Allen
Chairman of the Board
and Chief Executive Officer

Report of Independent Auditors

To the Shareowners of American Telephone and Telegraph Company:

We have audited the accompanying consolidated balance sheets of American Telephone and Telegraph Company and subsidiaries at December 31, 1990 and 1989, and the related consolidated statements of income and cash flows for the years ended December 31, 1990, 1989 and 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Telephone and Telegraph Company and subsidiaries at December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for the years ended December 31, 1990, 1989 and 1988, in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements, the Company changed its method of accounting for depreciation in 1989.

Coopers & Lybrand

1301 Avenue of the Americas
New York, New York
February 7, 1991

Board of Directors

Robert E. Allen
Chairman of the Board and Chief Executive Officer, AT&T

M. Kathryn Eickhoff
President, Eickhoff Economics Inc.

Walter Y. Elisha
Chairman and Chief Executive Officer, Springs Industries, Inc.

James H. Evans*
Retired Chairman and Chief Executive Officer, Union Pacific Corp.

Louis V. Gerstner, Jr.
Chairman and Chief Executive Officer, RJR Nabisco, Inc.

Philip M. Hawley
Chairman and Chief Executive Officer, Carter Hawley Hale Stores, Inc.

Edward G. Jefferson
Retired Chairman and Chief Executive Officer, E. I. du Pont de Nemours and Co.

Belton K. Johnson
Owner, Chaparrosa Ranch

Juanita M. Kreps*
Economist, Educator and former U.S. Secretary of Commerce

Drew Lewis
Chairman and Chief Executive Officer, Union Pacific Corp.

Donald F. McHenry
President, IRC Group, Inc., Educator and former Ambassador to the United Nations

Donald S. Perkins
Retired Chairman and Chief Executive Officer, Jewel Companies, Inc.

Henry B. Schacht
Chairman and Chief Executive Officer, Cummins Engine Co., Inc.

Michael I. Sovern
President, Columbia University

Morris Tanenbaum*
Vice Chairman of the Board and Chief Financial Officer, AT&T

Franklin A. Thomas
President, The Ford Foundation

Randall L. Tobias
Vice Chairman of the Board, AT&T

Rawleigh Warner, Jr.*
Retired Chairman and Chief Executive Officer, Mobil Corp.

Joseph D. Williams
Chairman and Chief Executive Officer, Warner-Lambert Co.

Thomas H. Wyman
Chairman, United Biscuits (Holdings) U.S. Ltd. and former Chairman and Chief Executive Officer, CBS Inc.

*Retiring from the Board in April 1991

Management Executive Committee

Robert E. Allen
Chairman of the Board and Chief Executive Officer

W. Frank Blount
Group Executive
Communications Products

Richard S. Bodman
Senior Vice President
Corporate Strategy and Development

Harold W. Burlingame
Senior Vice President
Human Resources

Robert M. Kavner
Group Executive
Data Systems and Federal Systems

Marilyn Laurie
Senior Vice President
Public Relations and Employee Information

William B. Marx, Jr.
Group Executive
Network Systems

Victor A. Pelson
Group Executive
Communications Services

Ian M. Ross
President
AT&T Bell Laboratories

Morris Tanenbaum
Vice Chairman of the Board and Chief Financial Officer

Randall L. Tobias
Vice Chairman of the Board

Sam R. Willcoxon
Group Executive
International

John D. Zeglis
Senior Vice President
General Counsel and Government Affairs

C. Perry Colwell
Senior Vice President
Financial Management

Roger F. Davis
Vice President and Controller

S. Lawrence Prendergast
Vice President and Treasurer

Robert E. Scannell
Vice President
Law and Secretary

Investor Information

How to reach us:
For help with questions about your AT&T stock or bonds, call us toll-free at 1-800-348-8288. From outside the United States, call us collect at 904-737-1933. You can send securities for transfer and write us at:
AT&T
c/o American Transtech
P.O. Box 45048
Jacksonville, FL 32232-5048

The Dividend Reinvestment and Stock Purchase Plan provides common stock shareowners a convenient way to purchase additional shares. American Transtech will provide you a prospectus and enrollment form on request.

American Transtech maintains an office in New York City at 22 Cortlandt Street, Room 1043, for the delivery of certificates for transfer from banks and brokers.

Security analysts, institutional investors, registered representatives, portfolio managers and other members of the professional financial community can call AT&T Corporate Investor Relations at 908-221-2464.

Shareowner and General Information
For help with general questions or comments, write to:
Vice President–Law and Secretary
AT&T
Room 2500P10
550 Madison Avenue
New York, NY 10022-3297

Form 10K (AT&T's annual report to the Securities and Exchange Commission) and AT&T Capital Corporation's annual report are available at no charge from:
Secretary's Department
AT&T Shareowner Relations
Room 2500P10
550 Madison Avenue
New York, NY 10022-3297

A report on AT&T philanthropy in 1988 and 1989 is available from:
AT&T Foundation
Room 2700P10
550 Madison Avenue
New York, NY 10022-3297

1991 Annual Meeting
The 106th Annual Shareowners Meeting will be held 9:30 a.m., Wednesday, April 17, 1991 at the Arie Crown Theatre in Chicago.

550 Madison Avenue
New York, NY 10022-3297
212 605-5500

AT&T